



CanWel Building Materials Group Ltd.
2018 Annual Report







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Letter to Shareholders

Following a strong finish to 2017 fueled by strong organic growth and strategic acquisitions, in 2018, we maintained our focus and disciplined approach in the continued pursuit of growth, profitability and shareholder value creation. Nearly all of the key financial metrics of your Company including revenues, gross profit, EBITDA and net income exceeded previous record levels. We were able to accomplish these results despite some softness in the macro economic backdrop, and the impact of a material decline in lumber, OSB and panel pricing which started during the third quarter, and which impacted demand for our products.

CanWel continued to deliver robust financial results in 2018 as a result of the resilient business foundation we have been building for our shareholders since 1999. We are also extremely proud to celebrate CanWel's 30th anniversary and our 15th anniversary as a TSX listed company in 2019.

Our efforts and successes in 2018 led to strength and improvement across all of our key financial metrics with revenues, gross profit, and EBITDA and net income showing significant year-over-year improvement. Revenues, gross profit, EBITDA, and net income increased to \$1.29 billion, \$192.9 million, \$71.2 million, and \$30.0 million, respectively, these improvements are mainly attributable to our continued focus on operational efficiencies, gross margin optimization, overall cost management, and notably a sound and disciplined acquisition strategy.

While there is always more work to do, we are pleased with the net impact of our acquisitions to date, which have provided us the foundation for these record results, a vaster footprint and deeper brand awareness in many parts of Canada, and the west coast of the U.S.

During the year, CanWel successfully completed a bought deal offering of senior unsecured notes for total gross proceeds of \$60.0 million (the "Notes"), an offering that was the first of its kind in the Canadian capital markets. This was done as part of CanWel's balance sheet optimization plan to support ongoing growth objectives. While the net proceeds of the offering were initially applied to reduce bank debt, the Notes provide CanWel with readily available growth capital at an attractive locked-in cost, in a rising interest rate environment.

Despite, the pricing headwinds in the second half of 2018 which was essentially unprecedented in the pace of decline from the robust pricing we saw starting in 2017, we remain very enthusiastic and confident about the growth prospects ahead, and look forward to further demonstrating the strength and leverage available in our business model as we continue to take advantage of sensible organic growth opportunities, as well as strategic scenarios where we can accelerate growth.

I would like to take this opportunity to extend my appreciation to the Board of Directors for their continued wisdom and stewardship. I would also like to thank our employees, customers, suppliers and our shareholders for your ongoing support and loyalty.

Sincerely,

Amar S. Doman

Chairman and CEO

CanWel Building Materials Group Ltd.

Management's Discussion and Analysis

March 5, 2019

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted CanWel Building Materials Group Ltd. (the "Company"), in the quarter and year ended December 31, 2018 relative to 2017. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2018 (the "2018 Consolidated Financial Statements"). The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of financial statements.

This MD&A, the associated 2018 Consolidated Financial Statements and the 2018 Letter to Shareholders (the "2018 Reporting Documents") contain historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Business Overview", "Outlook", "Commitments and Contingencies", "Sales and Gross Margin", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the inverse or negative of these terms or other similar terminology. Forward-looking information in the 2018 Reporting Documents includes, without limitation, statements regarding funding requirements, dividends, commodity pricing, interest rates, economic data and housing starts. These statements are based on management's current expectations regarding future events and operating performance, are based on information currently available to management, speak only as of the date of the 2018 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 29, 2018 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, sales and margin risk, acquisition and integration risks and operational risks related thereto, competition, information system risks, availability of supply of products, risks associated with the introduction of new product lines, product design risk, product liability risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, contract performance risk, availability of credit, credit risks, performance bond risk, currency risks, interest rate risks, tax risks, risks of legislative changes, international trade and tariff risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture, fire and natural disaster risks, key executive risk and litigation risks. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States economies, interest rates, exchange rates, capital and loan availability, commodity pricing, the Canadian and the US housing and building materials markets; international trade matters; post acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment and natural resources; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in the 2018 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained in these 2018 Reporting Documents is based on upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in the 2018 Reporting Documents may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than these 2018 Reporting Documents. In addition, there are numerous risks associated with an investment in the Company's common shares and senior unsecured notes, which are also further described in the "Risks and Uncertainties" section in these 2018 Reporting Documents and in the "Risk Factors" section of the Company's AIF, and as updated from time to time in the Company's other public filings on SEDAR.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The forward-looking statements contained in the 2018 Reporting Documents are made as of the date of this report, and should not be relied upon as representing the Company's views as of any date subsequent to the date of this report. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

The information in this report is as at March 5, 2019, unless otherwise indicated. All amounts are reported in Canadian dollars.

1. In the discussion, reference is made to EBITDA, which represents earnings from continuing operations before interest, including amortization of deferred financing costs, provision for income taxes, depreciation and amortization. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. EBITDA is presented as management believes it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because the Company interprets trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation of EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".
2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain non-recurring or unusual items. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS. The measure as calculated by the Company may not be comparable to similarly-titled measures reported by other companies. Adjusted EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business, before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation from Adjusted EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA".
3. Reference is also made to free cash flow of the Company. This is a non-IFRS measure generally used by Canadian companies as an indicator of financial performance. The measure as calculated by the Company might not be comparable to similarly-titled measures reported by other companies. Management believes that this measure provides investors with an indication of the cash available for distribution to shareholders of the Company. The Company defines free cash flow as cash flow from operating activities excluding changes in non-cash working capital, and after maintenance of business capital expenditures.

Business Overview

The Company is a leading wholesale distributor of building materials and home renovation products and provider of wood pressure treating services in Canada and regionally in the Western United States and Hawaii. The Company services the new home construction, home renovation and industrial markets by supplying the retail and wholesale lumber and building materials industry, hardware stores, industrial and furniture manufacturers and similar concerns. The Company's operations also includes timber ownership and management of private timberlands and Crown forest licenses, full service logging and trucking operations, and post-peeling and pressure treating for the agricultural market through CanWel Fibre Corp. ("CFC"). On October 2, 2017, the Company acquired the Honsador Building Products group of companies ("Honsador"), as described below, with an incumbent position in the State of Hawaii, further expanding the Company's presence in the US building distribution and treating markets. In 2018, the Company continued with its expansion and growth plans, completing the purchase of a partially constructed lumber pressure treating plant near Portland, Oregon on June 12, 2018 and a lumber pressure treating plant in Woodland, California on December 3, 2018.

Offering of Senior Unsecured Notes

On October 9, 2018, the Company completed a bought deal prospectus offering of senior unsecured notes (the "Unsecured Notes") denominated in principal amounts of one thousand dollars, resulting in gross proceeds of \$60.0 million. The offering was underwritten by a syndicate of underwriters led by National Bank Financial Inc., and including GMP Securities L.P., Canaccord Genuity Corp., CIBC World Markets Inc., Raymond James Ltd., RBC Dominion Securities Inc., and Haywood Securities Inc. The Unsecured Notes trade on the Toronto Stock Exchange under the symbol CWX.NT.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Unsecured Notes accrue interest at the rate of 6.375% per annum, payable on a semi-annual basis, maturing on October 9, 2023. While the net proceeds of the offering were initially used for the repayment of bank debt, the Unsecured Notes provide the Company with readily available growth capital at an attractive locked-in cost, in a rising interest rate environment.

Purchase of Superior Forest Products, Inc. and Western Wood Treating, Inc.

On June 12, 2018, the Company acquired certain assets and the business of Superior Forest Products, Inc. (now doing business as Oregon Cascade Building Materials "OCBM") (the "OCBM Acquisition"). Based in Junction City, Oregon, OCBM will provide lumber pressure treating services for customers predominantly based in Oregon and Washington. The OCBM Acquisition is expected to complement the Company's existing treated lumber and specialty wood products business in the United States. The plant is undergoing testing and completion of permitting, and is expected to commence customer shipments in 2019.

On December 3, 2018, the Company acquired certain assets and the business of Western Wood Treating, Inc. (now doing business as Woodland Wood Preservers, Ltd. "Woodland") (the "Woodland Acquisition"). Based in Woodland, California, Woodland specializes in pressure treated wood products. The Woodland Acquisition is expected to expand the Company's presence in the United States treating markets.

The foreign exchange rates used to translate purchase price consideration and fair values of assets acquired were based on the exchange rates published by the Bank of Canada as at the date of the above noted acquisitions (collectively, "2018 Acquisitions").

Further information regarding the preliminary purchase price allocation is contained in Note 7 of the 2018 Consolidated Financial Statements.

Purchase of Honsador Building Products Group

On October 2, 2017, the Company completed the acquisition of all issued and outstanding shares of Honsador Acquisition Corp., the parent company of the Honsador group of companies (the "Honsador Acquisition"), a leading distributor of building products and electrical supplies, and the largest producer of pressure-treated wood in Hawaii. The Honsador Acquisition is expected to expand the Company's presence in the United States building distribution and treating markets, and provide an incumbent position in the State of Hawaii.

Total purchase consideration comprised of US\$81.3 million, including certain preliminary post-closing adjustments. The foreign exchange rate used to translate cash purchase consideration and fair value of assets acquired and liabilities assumed was based on the exchange rate published by the Bank of Canada as at the date of the Honsador Acquisition.

Further information regarding the purchase price allocation is contained in Note 7 of the 2018 Consolidated Financial Statements.

Normal Course Issuer Bid

On November 22, 2018, the Company commenced a Normal Course Issuer Bid ("NCIB") with respect to its common shares. Under the terms of the NCIB, the Company may purchase for cancellation up to 6,085,605 of its common shares at market prices. At December 31, 2018, the Company had not repurchased any of its common shares. Subsequent to the end of the year, on January 3, 2019, the Company cancelled 142,200 of its common shares purchased pursuant to the NCIB.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition, the Company completed a private placement of 9,832,500 subscription receipts at a price of \$5.85 each, resulting in gross proceeds of \$57.5 million (the "2017 Private Placement"), including subscription receipts to certain insiders⁽¹⁾ for proceeds of \$5.6 million. The 2017 Private Placement was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Raymond James Ltd., Cormark Securities Inc. and Haywood Securities Inc.

Cash proceeds raised from the 2017 Private Placement, net of issuance costs, were used as partial consideration for the Honsador Acquisition. Upon the closing of the Honsador Acquisition, the subscription receipts issued were converted into a total of 9,832,500 common shares in accordance with their terms.

2017 Public Offering

On April 18, 2017, the Company completed a public offering of 6,598,470 common shares, by way of prospectus, at a price of \$6.10 each, resulting in gross proceeds of \$40.3 million (the "2017 Public Offering"). The 2017 Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Haywood Securities Inc., Raymond James Ltd., and Cormark Securities Inc.

Cash proceeds raised from the 2017 Public Offering, net of issuance costs, were used for reducing the Company's existing revolving loan facility, which was drawn on October 2, 2017, as partial consideration for the Honsador Acquisition, and for general corporate purposes.

Annuity Contract

During the fourth quarter of 2017, the Company purchased an annuity for \$36.0 million through its defined benefit pension plan in order to mitigate its exposure to potential future volatility fluctuations in the related pension obligations and plan assets. Upon closing of the annuity purchase, non-cash actuarial based transaction costs of \$4.4 million were recognized in other comprehensive income (loss), reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis. Further information regarding the Company's pension plan and this transaction is included under the headings "Employee Future Benefits" and "Significant Accounting Judgments and Estimates", and Note 20 of the 2018 Consolidated Financial Statements.

Foreign Exchange Forward Contracts

At December 31, 2018, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US\$9.0 million at exchange rates ranging between 1.3175 and 1.3225 for economic hedging purposes, and unrealized gains totaling \$400,000 were recorded in Other income.

During the year ended December 31, 2017, in order to reduce exposure to fluctuations in the United States - Canada dollar exchange rate with respect to the Honsador Acquisition, the Company entered into various foreign exchange contracts: to purchase US\$40.0 million at an exchange rate of 1.2402, US\$20.0 million at an exchange rate of 1.2213, US\$10.0 million at an exchange rate of 1.2154, and US\$10.0 million at an exchange rate of 1.2437. Upon settlements, realized gains totaling \$1.4 million were recorded in Other income in the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2017. Upon the closing of the Honsador Acquisition, the Company used the total purchased funds of US\$80.0 million as partial consideration for the acquisition.

1. For further details, see www.sedi.ca.

Seasonality

The Company's sales are subject to seasonal variances that fluctuate in accordance with the normal home building season, particularly in the Canadian market. The Company generally experiences higher sales in the second and third quarters compared to the first and fourth quarters. In addition, forestry operations and harvesting activities can be compromised by inaccessibility to some sites during wet seasons and extreme winter weather conditions, resulting in decreased harvest and customer delivery levels. This creates a timing difference between free cash flow earned and dividends paid. While the Company has leveled dividends to provide a regular income stream to shareholders over the course of a year, the second and third quarters have historically been the Company's most profitable.

Housing Starts

The seasonally adjusted annualized rate for overall Canadian housing starts was 212,843 in 2018 versus 219,763 in 2017, a decrease of 3.1%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 62,520 for the fourth quarter of 2018 versus 73,668 in the same period of 2017, a decrease of 15.1%⁽¹⁾.

The seasonally adjusted annualized rate for overall US housing starts reached 1,256,000 units in the fourth quarter of 2018 versus 1,192,000 in 2017⁽²⁾.

Construction Materials Pricing

After experiencing approximately eighteen months of generally increasing prices since the beginning of 2017, lumber, plywood and oriented strand board ("OSB") prices⁽³⁾ peaked in June 2018, then experienced significant declines towards the end of the third quarter of 2018, and continued to decline into the fourth quarter of 2018.

1. As reported by CMHC. For further information, see "Outlook".

2. As reported by the US Census Bureau.

3. As reported by Natural Resources Canada.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Selected Annual Information

(in \$ millions, per share in dollars)	Fiscal Year Ended December 31,		
	2018	2017	2016
Sales	1,291.3	1,136.0	978.3
Earnings before income taxes	41.1	35.8	51.9
Net earnings	30.0	28.8	44.2
Net earnings before non-recurring items ⁽¹⁾	30.6	31.6	21.8
Net earnings per share (basic and diluted)	0.39	0.42	0.86
Net earnings per share (basic and diluted), before non-recurring items ⁽¹⁾	0.39	0.46	0.40
Total assets	803.8	722.8	563.7
Long-term debt ⁽²⁾	287.6	207.4	183.2
Total debt	298.7	218.3	192.7
Dividends declared to shareholders	43.5	38.4	30.3
Dividends declared to shareholders (per share)	0.56	0.56	0.56
Weighted average basic shares outstanding	77,713,148	68,271,808	51,409,974
Total shares outstanding	77,744,598	77,659,655	61,152,898

1. Net earnings before gain on bargain purchase relating to business acquisitions, restructuring costs and directly attributable acquisition related costs.

2. Excludes current portion of long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparison of the Year Ended December 31, 2018 and December 31, 2017

Overall Performance

The following table shows the Company's segmented results for the year ended December 31, 2018:

(in \$ thousands)	2018				2017			
	Distribution \$	Forestry \$	Adjustments and eliminations ⁽¹⁾ \$	Consolidated \$	Distribution \$	Forestry \$	Adjustments and eliminations ⁽¹⁾ \$	Consolidated \$
Revenue								
External customers	1,240,765	50,530	-	1,291,295	1,080,289	55,661	-	1,135,950
Inter-segment	-	1,594	(1,594)	-	-	882	(882)	-
	1,240,765	52,124	(1,594)	1,291,295	1,080,289	56,543	(882)	1,135,950
Specified expenses								
Depreciation and amortization	13,411	5,011	-	18,422	9,039	5,719	-	14,758
Finance costs	9,160	2,512	-	11,672	5,876	2,394	-	8,270
Net earnings	26,289	3,726	-	30,015	28,133	672	-	28,805
Purchase of property, plant and equipment ⁽²⁾								
	8,048	5,708	-	13,756	4,335	7,653	-	11,988

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

2. Includes property, plant and equipment acquired through finance leases as well as the purchase of the partially completed treating plant in Oregon in June of 2018.

Sales and Gross Margin

Sales for the year ended December 31, 2018 were \$1,291.3 million versus \$1,136.0 million in 2017, representing an increase of \$155.3 million or 13.7%, due to the factors discussed below.

Sales for the Distribution segment increased by \$160.5 million or 14.9%, largely due to the inclusion of the results from the Honsador Acquisition, higher construction materials pricing earlier in 2018, and the Company's continuing focus on its product mix strategies and target customer base.

Sales for the Forestry segment decreased by \$4.4 million or 7.8%, inclusive of inter-segment sales. The decrease in sales relative to 2017 is largely due to the elimination of non-profitable sales from the since closed non-core Forestry segment operations, which were partially offset by an increase in sales due to comparatively more favorable pricing and weather conditions for harvesting during 2018. As was the case in 2017, third quarter 2018 sales however were negatively affected by wildfires in British Columbia, with Company harvesting activities temporarily halted due to forest area closures, resulting in decreased harvest and customer delivery levels. Direct impact to the Company's forest lands from the wildfires was minimal.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's sales by product group in the year were made up of 58% construction materials, compared to 61% last year, with the remaining balance resulting from specialty and allied products of 34% (2017 - 33%), and forestry and other of 8% (2017 - 6%).

Gross margin dollars increased to \$192.9 million in the current year, versus \$152.2 million in 2017, an increase of \$40.7 million or 26.7%. Gross margin percentage was 14.9% during the year, an increase from the 13.4% that was achieved in 2017. This increase in margin dollars and margin percentage reflects the positive impacts from the Honsador Acquisition, as well as higher construction materials pricing earlier in the current year.

Expenses

Expenses for the year ended December 31, 2018 were \$139.4 million versus \$105.8 million in 2017, an increase of \$33.6 million or 31.8% due to the factors discussed below. As a percentage of sales, expenses were 10.8%, versus 9.3% in 2017.

Distribution, selling and administration expenses were \$120.9 million, versus \$90.2 million in 2017, an increase of \$30.7 million or 34.0%. The increase is primarily due to expenses relating to the Honsador operations. As a percentage of sales, these expenses were 9.4%, versus 7.9% in 2017.

In the year ended December 31, 2018, depreciation and amortization expenses were \$18.4 million, compared with \$14.8 million in 2017, an increase of \$3.6 million or 24.3%. Depreciation and amortization expense for the Building Materials Distribution segment increased by \$4.4 million or 48.4%, mainly due to the depreciation and amortization resulting from the Honsador Acquisition. Depreciation and amortization for the Forestry segment decreased by \$708,000 or 12.4%, mainly due to certain equipment becoming fully depreciated.

Restructuring Costs

Restructuring costs for the year ended December 31, 2017 of \$834,000 were related to a closure of non-core Forestry segment operations.

Operating Earnings

For the year ended December 31, 2018, operating earnings were \$53.6 million versus \$46.4 million in 2017, an increase of \$7.2 million or 15.5%, due to the foregoing factors.

Finance Costs

Finance costs for the year ended December 31, 2018 were \$11.7 million versus \$8.3 million in 2017, an increase of \$3.4 million or 41.0%. Finance costs for the Distribution segment were \$3.3 million higher than in 2017, mainly due to higher average borrowings, higher interest rates on the Company's variable rate revolving loan facility, and the issuance of Unsecured Notes in the fourth quarter of 2018. The increase in the average balance of the revolving loan facility was primarily driven by the Honsador operations and higher construction material prices earlier in the year. Finance costs for the Forestry segment were largely in line with 2017, with a slight increase of \$119,000.

Acquisition Costs

Acquisition costs during the year were \$753,000, compared to \$3.0 million in 2017, a decrease of \$2.2 million or 74.9%. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In 2017, these costs were primarily attributable the Honsador Acquisition, and in 2018, these were attributable to the 2018 Acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Earnings before Income Taxes

For the year ended December 31, 2018, earnings before income taxes were \$41.1 million versus earnings of \$35.7 million in 2017, an increase of \$5.4 million or 15.1% due to the foregoing factors.

Provision for Income Taxes

For the year ended December 31, 2018, the provision for income taxes was \$11.1 million compared with \$7.0 million in 2017, an increase of \$4.1 million or 58.6%. This provision is a function of pre-tax earnings generated during the year. Additionally, the comparative prior year includes a tax recovery reflecting US tax reform enacted in December 2017, necessitating a partial reversal of previously recognized tax provisions.

Net Earnings

As a result of the foregoing factors, net earnings for the year ended December 31, 2018 were \$30.0 million versus \$28.8 million in 2017, an increase of \$1.2 million or 4.2% as discussed above.

Fourth Quarter Results

A summary of the unaudited results for the three months ended December 31, 2018 and 2017 is as follows:

(in \$ thousands, per share in dollars)	Three months ended December 31,	
	2018	2017
Sales	\$264,040	\$276,220
Gross margin	38,603	43,126
Gross margin %	14.6%	15.6%
Distribution, selling and administration expenses	29,745	30,185
Depreciation and amortization	5,040	4,643
Expenses	34,785	34,828
Operating earnings	3,818	8,298
Finance costs	(3,134)	(2,358)
Acquisition costs	(753)	(1,806)
Other loss	-	(625)
(Loss) Earnings before income taxes	(69)	3,509
Recovery of income taxes	(439)	(2,248)
Net earnings	\$370	\$5,757
Net earnings per share	0.00	0.07

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall Performance

The following table shows the Company's segmented results for the quarter ended December 31, 2018:

	Three months ended December 31, 2018				Three months ended December 31, 2017			
	Distribution \$	Forestry \$	Adjustments and eliminations ⁽¹⁾ \$	Consolidated \$	Distribution \$	Forestry \$	Adjustments and eliminations ⁽¹⁾ \$	Consolidated \$
Revenue								
External customers	251,614	12,426	-	264,040	261,441	14,779	-	276,220
Inter-segment	-	84	(84)	-	-	199	(199)	-
	251,614	12,510	(84)	264,040	261,441	14,978	(199)	276,220
Specified expenses								
Depreciation and amortization	3,494	1,546	-	5,040	3,212	1,431	-	4,643
Finance costs	2,356	778	-	3,134	1,705	653	-	2,358
Net earnings	72	298	-	370	5,340	417	-	5,757
Purchase of property, plant and equipment⁽²⁾	5,185	1,250	-	6,435	1,389	896	-	2,285

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

2. Includes property, plant and equipment acquired through finance leases.

Sales and Gross Margin

Sales for the three month period ended December 31, 2018 were \$264.0 million versus \$276.2 million in 2017, a decrease of \$12.2 million or 4.4%, due to the factors discussed below.

Sales for the Distribution segment decreased by \$9.8 million or 3.8% compared to the same period in 2017, largely due to the impact of a significant fall in construction materials pricing in the second half of 2018. This decrease was partially offset by the results for the Company's US operations due to more favorable market conditions, and continuing focus on product mix strategies and target customer base.

Sales for the Forestry segment decreased by \$2.5 million or 16.5%, inclusive of inter-segment sales. The decrease was largely due to wet weather conditions followed by heavy snowfall, with harvesting activities temporarily halted, resulting in decreased harvest and customer delivery levels. This segment was operating in line with seasonal expectations in the comparative 2017 period.

The Company's sales by product group in the quarter were made up of 52% construction materials, compared to 61% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 39% (2017 - 33%) and forestry and other of 9% (2017 - 6%).

Gross margin dollars decreased to \$38.6 million in the quarter compared to \$43.1 million in the comparative quarter of 2017, a decrease of \$4.5 million or 10.5%. Gross margin percentage was 14.6% in the quarter, a decrease from the 15.6% achieved in the same quarter of 2017. This decrease in margin percentage and dollars is mainly due to the aforementioned impact of the decrease in construction materials pricing.

Expenses

Expenses for the three month period ended December 31, 2018 were \$34.8 million, consistent with the same quarter of 2017. As a percentage of sales, expenses were 13.2% in the quarter, versus 12.6% during the comparative quarter in 2017.

Distribution, selling and administration expenses decreased by \$440,000 or 1.5%, to \$29.7 million in the fourth quarter of 2018, from \$30.2 million in the same period of 2017. The decrease is primarily due to lower personnel costs reflecting the decreased sales activity. As a percentage of sales these expenses were 11.3% in the quarter, compared to 10.9% in the comparative period in 2017.

In the three month period ended December 31, 2018, depreciation and amortization expenses were \$5.0 million, versus \$4.6 million in the comparative period, an increase of \$397,000 or 8.6%, mainly due to regular maintenance of capital expenditures and depreciation thereof of the Company's operating equipment. Depreciation and amortization expense for the Building Materials Distribution segment increased by \$282,000 or 8.8%. The Forestry segment experienced a slight increase in depreciation and amortization of \$115,000 or 8.0%.

Operating Earnings

For the quarter ended December 31, 2018, operating earnings were \$3.8 million, versus \$8.3 million in the comparative quarter in 2017, a decrease of \$4.5 million or 54.0%, due to the foregoing factors.

Finance Costs

Finance costs for the fourth quarter of 2018 were \$3.1 million, an increase of \$776,000 or 32.9% from \$2.4 million in the same period in 2017. Finance costs for the Distribution segment were \$651,000 or 38.2% higher than the same quarter in 2017, mainly due to the issuance of the aforementioned Unsecured Notes, which were used for repayment of the Company's secured bank debt, resulting in a higher blended interest rate. Finance costs for the Forestry segment were similar with the comparative period of 2017, with a slight increase of \$125,000.

Acquisition Costs

Acquisition costs during the fourth quarter were \$753,000, compared to \$1.8 million in 2017, a decrease of \$1.1 million or 58.3%. These costs include management resources as well as legal, environmental, financial and other advisory services directly attributable to acquisitions. In the fourth quarter of 2017, these costs were primarily attributable the Honsador Acquisition, and in 2018, these were attributable to the 2018 Acquisitions.

(Loss) Earnings before Income Taxes

For the quarter ended December 31, 2018, loss before income taxes was \$69,000, compared to earnings of \$3.5 million in the comparative quarter of 2017, a decrease in earnings of \$3.6 million or 102.0% due to the factors discussed above.

Recovery of Income Taxes

For the quarter ended December 31, 2018, the recovery of income taxes was \$439,000, compared with \$2.2 million in the same quarter of 2017, a decrease in the recovery of \$1.8 million or 80.5%. This provision is a function of the pre-tax earnings generated in the quarter. The recovery in the fourth quarter of 2017 reflects the US tax reform enacted in December 2017, necessitating a partial reversal of previously recognized tax provisions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Earnings

Net earnings for the quarter ended December 31, 2018 were \$370,000 compared to \$5.8 million for the period in 2017, a decrease of \$5.4 million or 93.6% due to the foregoing factors.

Summary of Quarterly Results

For the Quarters ended:

(\$ and shares millions, per share in dollars)	2018				2017			
	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar
Sales	264.0	350.2	382.1	295.0	276.2	316.8	320.0	222.8
EBITDA	8.1	20.1	27.5	15.6	10.5	21.3	18.9	8.2
Adjusted EBITDA ⁽¹⁾	8.9	20.1	27.5	15.6	13.4	21.7	20.4	8.2
Adjusted EBITDA % of sales ⁽¹⁾	3.4	5.7	7.2	5.3	4.8	6.9	6.4	3.7
(Loss) Earnings before income taxes	(0.1)	12.5	19.9	8.8	3.5	16.0	13.8	2.4
Net earnings	0.4	8.5	14.7	6.5	5.8	11.6	9.8	1.7
Net earnings before non-recurring items ⁽²⁾	0.9	8.5	14.7	6.5	7.8	12.0	11.0	1.7
Net earnings per share ⁽³⁾	0.00	0.11	0.19	0.08	0.07	0.17	0.15	0.03
Net earnings per share, before non-recurring items ⁽²⁾⁽³⁾	0.01	0.11	0.19	0.08	0.09	0.17	0.17	0.03
Dividends declared per share	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Outstanding shares ⁽³⁾	77.7	77.7	77.7	77.7	77.4	67.8	66.5	61.2

- Adjusted EBITDA refers to EBITDA before the following non-recurring items: restructuring costs, directly attributable acquisition related costs and impairment loss on property, plant and equipment.
- Net earnings before restructuring costs, directly attributable acquisition related costs and impairment loss on property, plant and equipment.
- Weighted average basic shares outstanding in the period.

Reconciliation of Net Earnings to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and Adjusted EBITDA:

(in thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net earnings	370	5,757	30,015	28,805
(Recovery of) Provision for income taxes	(439)	(2,248)	11,131	6,977
Finance costs	3,134	2,358	11,672	8,270
Depreciation of property, plant and equipment	3,340	3,010	11,709	10,909
Amortization of intangible assets	1,700	1,633	6,713	3,849
EBITDA	8,105	10,510	71,240	58,810
Acquisition costs	753	1,806	753	2,964
Restructuring costs	-	-	-	834
Impairment loss on property, plant and equipment	-	1,039	-	1,039
Adjusted EBITDA	8,858	13,355	71,993	63,647

MANAGEMENT'S DISCUSSION AND ANALYSIS

EBITDA and Adjusted EBITDA

EBITDA for the three month period ended December 31, 2018 was \$8.1 million versus \$10.5 million in the comparative quarter of 2017, a decrease of \$2.4 million or 22.9% largely due to the impact of a significant fall in construction materials pricing, on both sales and gross margin. EBITDA for the fourth quarter of 2018 was impacted by acquisition costs of \$753,000, compared to \$1.8 million in acquisition costs and \$1.0 million in impairment losses for the comparative period of 2017. Adjusted EBITDA before these non-recurring items was \$8.9 million compared to \$13.4 million in the same quarter of 2017, a decrease of \$4.5 million or 33.7% compared to the same quarter in 2017.

EBITDA for the year ended December 31, 2018 was \$71.2 million compared to \$58.8 million in 2017, an increase of \$12.4 million or 21.1%, largely due to the inclusion of the results from the Honsador operations for the full year. Adjusted EBITDA for 2018 was also impacted by acquisition costs of \$753,000, compared to \$3.0 million, restructuring costs of \$834,000 and impairment losses of \$1.0 million in 2017. Adjusted EBITDA before these non-recurring items was \$72.0 million compared to \$63.6 million in 2017, an increase of \$8.4 million or 13.1%.

Financial Condition

Liquidity and Capital Resources

During the year ended December 31, 2018, the Company consumed \$6.6 million in cash, versus generating \$2.7 million in 2017. The following activities during the year were responsible for the change in cash.

Operating activities generated \$51.4 million in cash, before non-cash working capital, versus \$34.5 million in 2017. This increase in cash generated is primarily a result of the inclusion of the Honsador operations and the positive impact of higher construction materials pricing earlier in the year.

During the year ended December 31, 2018, changes in non-cash working capital items consumed \$55.5 million in cash, versus \$3.7 million in 2017. The increase in the changes in non-cash working capital is primarily driven by a significant increase in inventory levels, built up to address a strong order backlog with treated lumber customers and to take advantage of favorable buying conditions in the fourth quarter of 2018. The change in working capital in the year was comprised of a decrease in trade and other receivables of \$5.3 million, an increase in inventory of \$54.9 million, a decrease in prepaid expenses of \$1.8 million, a decrease in trade and other payables and income taxes payable of \$5.9 million and a decrease in performance bond obligations (Honsador) of \$1.7 million.

During the year ended December 31, 2018, financing activities generated \$25.4 million of cash, versus \$75.9 million in 2017. The issuance of the aforementioned Unsecured Notes resulted in gross proceeds \$60.0 million of cash, which were applied against the revolving loan facility. Shares issued during the year generated \$490,000 of cash, compared to \$98.2 million (net of issuance costs of \$6.3 million) in 2017 due to the 2017 Private Placement and 2017 Public Offering. Scheduled repayments related to the non-revolving term loan consumed \$2.7 million, consistent with 2017. Payment of finance lease liabilities consumed \$1.7 million of cash in the current year versus \$654,000 in 2017. Net repayments on the equipment term loan and equipment line amounted to \$1.5 million compared to \$3.5 million in 2017, including scheduled repayments, which were partially offset by funds drawn to purchase certain equipment. Scheduled repayments of promissory notes consumed \$3.7 million of cash in the year, compared to \$2.7 million in 2017.

The Company incurred \$3.6 million in financing costs in respect to the issuance of the Unsecured Notes, compared to \$1.2 million in financing costs on borrowings in 2017.

Dividends paid to shareholders amounted to \$43.5 million, versus \$36.1 million in 2017. The increase in dividends paid reflects the greater number of shares outstanding in during 2018 resulting from the 2017 Private Placement and 2017 Public Offering. The dividends declared and paid on a per share basis were unchanged from 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The revolving loan facility increased by \$21.5 million, versus \$31.0 million in 2017 due to the increased working capital needs of the Company. The Company was not in breach of any of its covenants during the year ended December 31, 2018.

Investing activities in the year ended December 31, 2018 consumed \$27.9 million of cash, compared to \$103.9 million in 2017. Cash purchases of property, plant and equipment relating to the Distribution segment were \$4.5 million, versus \$2.4 million in 2017. Cash purchases of property, plant and equipment relating to the Forestry segment were \$5.7 million, versus \$4.1 million in 2017. Proceeds from disposition of property, plant and equipment were \$502,000, versus \$3.7 million in 2017. Investing activities in 2018 included the 2018 Acquisitions, whereas 2017 included the Honsador Acquisition and the related bank indebtedness acquired.

The Company's cash flows from operations and credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated dividends. The Company's lease obligations generally require monthly installments and these payments are all current.

Total Assets

Total assets of the Company were \$803.8 million as at December 31, 2018, versus \$722.8 million as at December 31, 2017, an increase of \$81.0 million. Current assets increased by \$54.5 million, mainly due to significantly higher inventory balances, built up to address the aforementioned strong order backlog with treated lumber customers and to take advantage of favorable buying conditions in the fourth quarter of 2018.

Long-term assets within the Distribution segment were \$274.8 million as at December 31, 2018, compared to \$248.0 million as at December 31, 2017, an increase of \$26.8 million mainly due to the 2018 Acquisitions and purchases of property, plant and equipment in the normal course of operations, partially offset by depreciation. Long-term assets within the Forestry segment were consistent with prior year, at \$131.7 million in 2018 versus \$132.0 million in 2017.

Total Liabilities

Total liabilities were \$440.6 million as at December 31, 2018, versus \$362.6 million at December 31, 2017, an increase of \$78.0 million. This increase was mainly as a result of increases in the loan facilities of \$78.6 million which was used to finance the working capital requirements of the Company, and mainly reflecting the aforementioned higher inventory balances at December 31, 2018.

Outstanding Share Data

As at March 5, 2019, there were 77,686,260 common shares issued and outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dividends

The following dividends were declared and paid by the Company:

	2018				2017			
	Declared			Paid	Declared			Paid
	Record date	Per share	Amount		Record date	Per share	Amount	
Quarter 1 dividend	March 29, 2018	0.14	10,877	April 13, 2018	March 31, 2017	0.14	8,566	April 14, 2017
Quarter 2 dividend	June 29, 2018	0.14	10,878	July 13, 2018	June 30, 2017	0.14	9,490	July 14, 2017
Quarter 3 dividend	September 28, 2018	0.14	10,884	October 15, 2018	September 29, 2017	0.14	9,496	October 13, 2017
Quarter 4 dividend	December 31, 2018	0.14	10,884	January 15, 2019	December 29, 2017	0.14	10,872	January 15, 2018
		0.56	43,523			0.56	38,424	

Dividend Policy

The Board of Directors reviews the Company's dividend policy periodically in the context of the Company's overall profitability, free cash flow, capital requirements and other business needs.

Looking forward, the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors that may become relevant in the future and, accordingly, there can be no assurance that the current quarterly dividend of \$0.14 per share will be maintained. Furthermore, the Company may not choose to use future growth in its profitability or free cash flow, if any, to increase its dividend in the near or medium term, but may focus on reducing the ratio of its dividends paid to its net earnings or free cash flow and using any additional cash to pay down debt, fund business acquisitions, capital projects or such other uses as determined by the Board of Directors.

Hedging

The Company undertakes sale and purchase transactions in foreign currency as part of its Canadian operations and therefore, is subject to gains and losses due to fluctuations in foreign exchange rates.

The Company at times uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign currency risk through the use of futures contracts and options. These derivative financial instruments are designated as fair value through profit and loss, with changes in fair value being recorded in Other income (loss) in net earnings.

At December 31, 2018, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US\$9.0 million at exchange rates ranging between 1.3175 and 1.3225 (2017 - \$1.9 million) for economic hedging purposes, and unrealized gains totaling \$400,000 (2017 - \$27,000) were recorded in Other income.

Related Party Transactions

The Company has transactions with related parties in the normal course of operations at agreed amounts between the related parties.

Certain distribution facilities used by the Company to store and process inventory are leased from a company in which Amar Doman, a director and officer, and Rob Doman, an officer of the Company, have a minority interest and the land and buildings of certain of the treatment plants are leased from entities solely controlled by Amar Doman. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were \$3.3 million in the year ended December 31, 2018, versus \$3.2 million in 2017. The minimum payments under the terms of these leases are as follows: \$3.3 million in 2019, \$2.3 million in 2020, \$1.9 million in 2021, \$1.6 million in 2022, \$1.6 million in 2023 and \$14.1 million for years thereafter.

During the year ended December 31, 2018, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of \$645,000 (2017 - \$559,000) by a company owned by Rob Doman. As at December 31, 2018, payables to this related party were \$282,000 (December 31, 2017 - \$133,000). Additionally, fees of \$1.1 million (2017 - \$1.2 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2018, payables to this related party were \$59,000 (December 31, 2017 - \$55,000).

During the year ended December 31, 2018, the Company purchased \$3.6 million (2017 - \$2.6 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases were in the normal course of operations and are recorded at exchange amounts. As at December 31, 2018, payables to this related party were \$38,000 (December 31, 2017 - \$99,000).

During the year ended December 31, 2018, the Company purchased \$1.0 million (December 31, 2017 - \$nil) of product from a company controlled by Siegfried Thoma, a director of the Company. These purchases were made in the normal course of operations and are recorded at exchange amounts.

In the comparative 2017 fiscal year, subscriptions were received from certain insiders of the Company for proceeds of \$5.6 million, including \$5.0 million in subscription receipts from Amar Doman and \$472,000, in aggregate, from several members of key management personnel, directors and officers of the Company⁽¹⁾. The balance of subscriptions were received from other non-management insiders. There were no subscriptions received from insiders of the Company during the year ended December 31, 2018.

Additional information regarding these related party transactions is contained in Note 26 of the 2018 Consolidated Financial Statements.

In addition to the aforementioned related party transactions, certain subsidiaries of the Company had entered into leases for various facilities and equipment, with entities affiliated with individuals who are directors and officers of such subsidiaries, in connection with prior acquisitions. During the year ended December 31, 2018, such lease payments totaled \$nil (2017 - \$1.2 million), and trucking services and other related party services paid totaled \$nil (2017 - \$70,000). These arrangements were terminated during the second quarter of 2017.

1. For further details, see www.sedi.ca.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Commitments and Contingencies

Future and Contractual Obligations

In addition to various debt facilities, an earn-out commitment and finance leases covering certain transportation equipment, the Company has operating lease commitments for the rental of most of its distribution centres and treatment plant properties in Canada and the United States, and for vehicles, warehouse equipment, and a computer hosting contract.

The following table shows, as at December 31, 2018, the Company's contractual obligations inclusive of estimated interest within the periods indicated:

Contractual Obligations (in thousands of dollars)	Total	2019	2020-2021	2022-2023	Thereafter
Revolving loan facility ⁽¹⁾	207,755	8,642	199,113	-	-
Non-revolving term loan ⁽²⁾	38,154	4,386	33,768	-	-
Unsecured notes ⁽³⁾	79,145	3,835	7,660	67,650	-
Promissory notes ⁽⁴⁾	6,032	2,669	3,363	-	-
Equipment term loan and line ⁽⁵⁾	13,157	4,121	9,036	-	-
Earn-out commitment ⁽⁶⁾	2,065	-	2,065	-	-
Finance leases ⁽⁷⁾	5,392	1,718	2,408	1,200	66
Operating leases ⁽⁷⁾	142,910	22,250	33,157	24,382	63,121
Total contractual obligations	494,610	47,621	290,570	93,232	63,187

1. Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2018 utilizing the interest rate payable under the terms of the facility at December 31, 2018. This facility matures on July 10, 2021.
2. Annual principal payments are amortized over 15 years, with interest payable quarterly.
3. Interest has been calculated at 6.375%, payable semi-annually. The notes mature on October 9, 2023.
4. Additional information is contained in Note 16 of the 218 Consolidated Financial Statements.
5. Monthly principal repayments amortize over 5 years, interest is payable monthly. Equipment line principal repayments commence on August 1, 2019, with maturity on December 1, 2021.
6. Additional information is contained in Note 27 of the 2018 Consolidated Financial Statements.
7. Additional information is contained in Note 27 of the 2018 Consolidated Financial Statements.

Claims

During the normal course of business, certain product liability and other claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims, where applicable, and, based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, in consideration of insurance coverage maintained, or the nature of the claims, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or future earnings of the Company.

Guarantees

The Company has issued letters of credit totaling \$1.4 million as at December 31, 2018 (December 31, 2017 - \$1.5 million) in respect of historical obligations, pre-dating 1999, for a non-registered executive pension plan for former executives.

Significant Accounting Judgments and Estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring estimates are goodwill and related impairment testing, inventory valuation and obsolescence, deferred tax assets and liabilities valuation, recoverability of trade and other receivables, certain actuarial and economic assumptions used in the determination for the cost and accrued benefit obligations of employee future benefits, classification of lease agreements, valuation of timber, determination of reforestation provision and judgments regarding aggregation of reportable segments.

Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2018 relates to the Company's acquisitions of various businesses. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the value in-use of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the fair value of each cash-generating unit, including a discount rate, a growth rate and after tax cash flows. When the carrying amount of the cash-generating unit exceeds its value in-use, the value in-use of goodwill related to the cash-generating unit is reduced by the excess of this carrying value and recognized as an impairment loss.

Timber

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net earnings for the period. Significant judgment is used in determining the fair value with reference to independent third party valuers and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumptions, the discount rate used and the resulting net present value of future cash flows for standing timber.

Reforestation Provision

Management uses judgment in determining the value of the reforestation provision. Due to the general long-term nature of the liability, the most significant areas of uncertainty in estimating the provision are the future costs that will be incurred, the inflation rate, and the risk-adjusted discount rate.

Employee Future Benefits

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future.

i. Discount rate

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have maturity profiles that are similar to the underlying cash flows of the defined benefit obligation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ii. Other assumptions

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates.

Inventory Valuation

Under IFRS, inventories must be recognized at the lower of cost or their Net Realizable Value ("NRV"), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize. The measurement of an inventory write-down to NRV is based on the Company's best estimate of the NRV and of the Company's expected future sale or consumption of the Company's inventories. Due to the economic environment and continued volatility in the homebuilding market, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in the Company's assessment of NRV at period end. As a result there is the risk that a write-down of on hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence.

Inventory includes harvested timber, the cost of which is based on its fair value less costs to sell, and forms a component of the carrying value of log inventory. Harvested timber is subsequently processed into logs and carried at the lower of cost or NRV. Significant judgment is used in determining the fair value of timber with reference to independent third party valuers and recent comparatives of standing timber sales.

Allowance for Doubtful Accounts

It is possible that certain trade receivables may become uncollectible, and as such an allowance for these doubtful accounts is maintained. The allowance is based on the estimated recovery of trade receivables and incorporates current and expected collection trends. These estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position.

Income Taxes

At each reporting date, a deferred income tax asset may be recognized for all tax deductible temporary differences, unused tax losses and income tax reductions, to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of the ability to carry-back operating losses to offset taxes paid in prior years; the carry-forward periods of the losses; and an assessment of the excess of fair value over the tax basis of the Company's net assets. If based on this review, it is not probable such assets will be realized then no deferred income tax asset is recognized.

Management believes the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results may differ from these estimates.

Leases

When assessing the classification of a lease agreement between finance and operating, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, the assessment of the likelihood of exercising options and estimation of the fair value of the lease property.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer.

The Company is managed as two reportable business segments which offer different products, require different production processes, and are based on how financial information is produced internally for the purposes of making operating decisions. The following summary describes the operations of each of the Company's reportable segments:

- a) *Distribution* – wholesale distribution of building materials and home renovation products, including value-added services such as lumber pressure treating; and
- b) *Forestry* – timber ownership and management of private timberlands and Crown forest licenses, logging and trucking operations, and value-added services such as post-peeling and post and pole pressure treating operations.

Changes in Accounting Standards

The significant accounting policies as disclosed in Note 3 of the 2018 Consolidated Financial Statements have been applied consistently in the preparation of these financial statements, except as stated below.

IFRS 9 – Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") replacing IAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 was applied retrospectively and did not have a material impact on the 2018 Consolidated Financial Statements and did not result in any adjustments.

IFRS 15 - Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), replacing IAS 11, *Construction Contracts*, IAS 18, *Revenue*, as well as several revenue-related interpretations. The adoption of IFRS 15 did not have a material impact on the 2018 Consolidated Financial Statements and did not result in any adjustments. The adoption of this standard did, however, result in more detailed disclosure in the Company's financial statements related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Further information about changes to the Company's accounting policies resulting from the adoption of these new standards can be found in Note 5 to the 2018 Consolidated Financial Statements.

New Accounting Pronouncements Issued but not yet Applied

The following is an overview of accounting changes the Company will be required to adopt in future periods.

IFRS 16 – Leases

In January 2016, the International Accounting Standards Board issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases*, and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor. IFRS 16 is effective January 1, 2019 and the Company does not intend to early adopt this standard. The Company expects that it will use the modified retrospective approach which recognizes the cumulative effect of applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company has completed the scoping and review of its outstanding lease agreements and continues to evaluate the impact that this new standard will have, but expects that IFRS 16 will have a material impact on the Company's Consolidated Statement of Financial Position, stemming from the recognition of new right-of-use assets and lease liabilities for leases with lease terms that are greater than twelve months, which are currently accounted for as operating leases.

The Company expects to utilize certain practical expedients available under IFRS 16, including:

- a) recognition exemptions under IFRS 16 (5a) and (5b) for short-term and low-value leases;
- b) an election under IFRS 16 (C11), which allows a Company the choice to not reassess contracts which were previously identified as leases under IAS 17; and
- c) an option under IFRS 16 (B1) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Company estimates that effective January 1, 2019, it will recognize right-of-use assets and corresponding lease liabilities in the range of \$115 million to \$130 million in its Consolidated Statement of Financial Position, with no restatement of comparative periods' results. The Company is in the process of finalizing its IFRS 16 transition impact calculations, lease accounting procedures and policies, expecting to be complete during the first quarter of 2019.

The Company leases (rents) distribution and wood treatment facilities, along with equipment used in the operation of the business. Upon adoption of this new accounting standard, these lease (rental) payments will be presented as interest and depreciation expenses on the Company's Consolidated Statement of Earnings rather than distribution, selling and administration expenses. Financial statement users that calculate EBITDA for the Company will observe a resulting increase in EBITDA due to the required presentation change under IFRS 16.

Application of the new standard is not anticipated to impact compliance with any of the Company's debt covenants.

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by the Company is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by the Company is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2018. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in the Issuer's Annual and Interim Filings are effective for the purposes set out above. The Company's management, including the Chief Executive Officer and Chief Financial Officer, acknowledges responsibility for the design and operation of disclosure controls and procedures and internal control over financial reporting, and the requirement to evaluate the effectiveness of these controls on an annual basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Internal Control over Financial Reporting

Management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 based on the provisions of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that its internal control over financial reporting, as defined by National Instrument 52-109, is effective and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Changes in Internal Control over Financial Reporting

There were no material changes in the design of the Company's internal controls over financial reporting during the year ended December 31, 2018 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada, which are described in greater detail in the Company's AIF dated March 29, 2018, and the Company's public filings on www.sedar.com, which the reader is encouraged to review, and which are or may be, updated from time to time, after the date therein. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Outlook

Pricing for lumber, plywood and OSB experienced significant declines from June 2018 through to the end of 2018. Management will continue to employ mitigation strategies to minimize the potential impacts of future commodity price volatility. These strategies include the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company's internal policy of matching inventory levels to maintain its high standard of customer service levels, minimalizing excess inventory otherwise exposed to market fluctuations. The Company is also continuing to execute on its strategy to increase the proportion of value added products, such as pressure treated wood, in its overall sales.

The Canadian economy is forecast to grow by 1.7% in 2019, before increasing to 2.0% in 2020, according to the most recent revised estimates published by the Bank of Canada ("BoC"). The BoC also reported that recent indicators have bolstered their confidence in their economic outlook, with inflation close to target and the economy operating close to capacity. Based on this improving outlook, the BoC raised its key short-term lending rate by 0.25% on October 24, 2018 to 1.75%, which is the fifth such increase since July 2017. On September 26, 2018, the US Federal Reserve raised its benchmark interest rate to 2.25%, which was the third rate increase in 2018. This may signal that both economies are returning to a more solid footing, with unemployment rates falling and economies performing in line with expectations. However, there remains uncertainty stemming from international relations, trade disputes and geo-political uncertainty, potentially impacting economic activity and growth, interest rates and foreign exchange.

MANAGEMENT'S DISCUSSION AND ANALYSIS

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts was 212,843 in 2018 compared to 219,763 in 2017. CMHC forecasts annual housing starts for the years 2019 and 2020 to be in the range from 193,700 units to 204,500 units. Historically, strong housing starts have positively impacted the Company's business and the volume of building materials that it sells. The recent introduction of stricter federal mortgage rules, the introduction of British Columbia and Ontario foreign buyers' and speculation taxes, increased lending rates, foreign exchange fluctuations and overall affordability issues, may affect the housing market, although any potential impact is unpredictable.

According to the US Census Bureau, seasonally-adjusted housing starts reached 1,256,000 units in the fourth quarter of 2018 compared to 1,303,000 units in the same period last year. According to the Federal Home Mortgage Corporation (Freddie Mac) Economic & Housing Research Group, housing starts are estimated to reach 1,290,000 units for 2019 and 1,360,000 for 2020. The US economy has been expanding at a robust pace, and according to the BoC, is expected to average about 2.0% growth over the 2019-2020 period.

A tentative new trilateral trade deal was announced in the second half of 2018 between the United States, Mexico and Canada to replace NAFTA. The new trade agreement, once ratified, is expected to add a measure of certainty to trade between the countries, which in turn should have a positive impact on consumer confidence. That said, there is still no visibility on the timing of such ratification, nor any agreement on the ongoing softwood lumber dispute. The Softwood Lumber Agreement with the US expired in October 2015 and as anticipated, the US Department of Commerce introduced both countervailing and anti-dumping duties on Canadian softwood lumber imports. The Company will continue to carefully manage its business to minimize any potential impacts of these trade dispute duties. The Company does not export softwood lumber from Canada to the US and the Company's US distribution operations sell wood products sourced in the US. Despite ongoing talks, there is no visibility as to the resolution of this trade dispute.

The Company's focus in the near term remains to grow sales with its target customer base while continuing to optimize gross margins, integrate recent acquisitions and maintain tight controls over expenses, including those relating to the 2018 Acquisitions. The Company is committed to enhancing its offering of specialty and allied products to the Canadian and United States markets. Management's focus on cash flow, primarily consisting of the management of inventory and trade receivables, remains paramount.

The proceeds from the Company's offering of the Unsecured Notes in the fourth quarter were applied against the revolving loan facility, providing greater financial flexibility for the Company and readily available growth capital at an attractive locked-in cost by freeing up credit availability in a rising interest rate environment.

Sawlog prices have experienced an upward trend in pricing largely attributable to ongoing log supply constraints, particularly in British Columbia, where the situation has been further impacted by the 2018 wildfire activity. Regional sawlog prices in the East Kootenay's of British Columbia, the Company's primary base of forestry operations, are expected to remain strong due to ongoing local log supply shortfalls and expected continuing growth in US demand. There can be no assurance, however, these pricing trends will be sustainable, which may result in potential adverse impacts on the Company's forestry segment.

Management will continue to closely monitor the Company's operations, legacy customers, and potential seasonal weather impacts, so that the Company will be appropriately positioned to participate in a continuing economic recovery and be ready to work hard to translate revenue gains into higher earnings for the Company and its shareholders.



CanWel Building Materials Group Ltd.
Consolidated Financial Statements

December 31, 2018 and 2017
(in thousands of Canadian dollars)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of CanWel Building Materials Group Ltd.

Opinion

We have audited the consolidated financial statements of CanWel Building Materials Group Ltd. (the "Company"), which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of earnings and comprehensive earnings for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2018, excluding the adjustments of \$ Nil as described in Note 5, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 8, 2018.

As part of our audit of the financial statements for the year ended December 31, 2018, we also audited the adjustments of \$ Nil described in Note 5. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments of \$ Nil described in Note 5, we were not engaged to audit, review or apply any procedures to the financial statements as at and for the year ended December 31, 2017. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.



Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Company in accordance with the ethical requirements that are relevant to or audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “Annual Report”.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis and the Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our



conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Andrew James.

Vancouver, Canada
March 5, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31

(in thousands of Canadian dollars)	Notes	2018 \$	2017 (Note 7) \$
Assets			
Current assets			
Cash	14	488	6,744
Trade and other receivables	8	101,797	104,505
Income taxes receivable	24	4,796	2,605
Inventories	9	284,388	221,495
Prepaid expenses and deposits		5,774	7,387
		397,243	342,736
Non-current assets			
Property, plant and equipment	10	108,242	93,586
Timber	11	62,659	64,249
Deferred income tax assets	24	2,641	4,429
Intangible assets	12	47,263	50,195
Goodwill	13	181,157	164,129
Other assets		4,564	3,496
		406,526	380,084
Total assets		803,769	722,820
Liabilities			
Current liabilities			
Cheques issued in excess of cash on hand	14	9,701	9,755
Trade and other payables		80,808	83,620
Performance bond obligations	15	13,507	14,101
Dividends payable	21	10,884	10,872
Income taxes payable	24	169	-
Current portion of non-current liabilities	16-18	11,063	11,438
		126,132	129,786
Non-current liabilities			
Loans and borrowings	16	283,471	204,923
Finance lease liabilities	17	4,140	2,524
Reforestation and environmental	18	1,724	1,057
Other liabilities	19	2,578	2,650
Deferred income tax liabilities	24	19,307	17,937
Retirement benefit obligations	20	3,290	3,708
		314,510	232,799
Total liabilities		440,642	362,585
Equity			
Common shares	21	499,154	498,639
Contributed surplus		10,769	10,769
Foreign currency translation		15,654	(49)
Deficit		(162,450)	(149,124)
		363,127	360,235
Total liabilities and equity		803,769	722,820
Commitments and contingencies	27		

Approved by the Board of Directors

(signed) "Amar S. Doman" Director

(signed) "Sam Fleiser" Director

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS FOR THE YEARS ENDED DECEMBER 31

(in thousands of Canadian dollars, except per share amounts)	Notes	2018 \$	2017 (Note 7) \$
Revenue	31,32	1,291,295	1,135,950
Cost of sales	22	1,098,365	983,777
Gross margin from operations		192,930	152,173
Expenses			
Distribution, selling and administration	23	120,937	90,198
Depreciation of property, plant and equipment	10	11,709	10,909
Amortization of intangible assets	12	6,713	3,849
Restructuring costs		-	834
		139,359	105,790
Operating earnings		53,571	46,383
Finance costs	25	(11,672)	(8,270)
Acquisition costs	7	(753)	(2,964)
Other income		-	633
Earnings before income taxes		41,146	35,782
Provision for income taxes	24	11,131	6,977
Net earnings		30,015	28,805
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations ⁽¹⁾		15,703	(4,384)
Actuarial gain from pension and other benefit plans, net of tax of \$64 (2017 - \$707) ⁽²⁾	20,24	182	1,926
Comprehensive earnings		45,900	26,347
Net earnings per share			
Basic and diluted		0.39	0.42
Weighted average number of shares			
Basic and diluted		77,713,148	68,271,808

1. Item that may be reclassified to earnings in subsequent periods.

2. Item will not be reclassified to earnings.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

(in thousands of Canadian dollars, except share amounts)	Common shares		Contributed surplus	Foreign currency translation	Deficit	Total
	#	\$	\$	\$	\$	\$
As at December 31, 2016	61,152,898	405,048	10,769	4,335	(141,431)	278,721
Shares issued pursuant to:						
Public offering	6,598,470	40,251	-	-	-	40,251
Private placement	9,832,500	57,520	-	-	-	57,520
Restricted Equity Common Share Plan	4,832	29	(29)	-	-	-
Employee Common Share Purchase Plan	70,955	384	-	-	-	384
Transaction costs on issue of shares, net of deferred income tax		(4,593)	-	-	-	(4,593)
Share-based compensation charged to operations		-	29	-	-	29
Dividends		-	-	-	(38,424)	(38,424)
Comprehensive earnings for the year		-	-	(4,384)	30,731	26,347
As at December 31, 2017	77,659,655	498,639	10,769	(49)	(149,124)	360,235
Shares issued pursuant to:						
Restricted Equity Common Share Plan	3,726	25	(25)	-	-	-
Employee Common Share Purchase Plan	81,217	490	-	-	-	490
Share-based compensation charged to operations		-	25	-	-	25
Dividends		-	-	-	(43,523)	(43,523)
Comprehensive earnings for the year		-	-	15,703	30,197	45,900
As at December 31, 2018	77,744,598	499,154	10,769	15,654	(162,450)	363,127

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

(in thousands of Canadian dollars)	Notes	2018 \$	2017 \$
Operating activities			
Net earnings		30,015	28,805
Items not affecting cash			
Provision for income taxes	24	11,131	6,977
Depreciation and amortization of:			
Property, plant and equipment	10	11,709	10,909
Intangible assets	12	6,713	3,849
Leasehold inducements		(315)	(301)
Fair value adjustments	11	(2,393)	(7,925)
Timber harvested	11	4,851	3,243
Other		(827)	556
Income taxes paid		(10,579)	(10,660)
Interest paid on loans and borrowings and other	25	(9,119)	(6,861)
Payment of reforestation and environmental	18	(1,421)	(1,247)
Finance costs	25	11,672	8,270
Settlement of onerous operating leases		-	(1,153)
Cash flows from operating activities before changes in non-cash working capital			
		51,437	34,462
Changes in non-cash working capital	30	(55,467)	(3,716)
Net cash flows (used in) provided by operating activities		(4,030)	30,746
Financing activities			
Shares issued	21	490	98,155
Transaction costs on issue of shares	21	-	(6,293)
Dividends paid	21	(43,511)	(36,113)
Repayment of promissory notes	16	(3,699)	(2,702)
Payment of finance lease liabilities		(1,689)	(654)
Repayment of non-revolving term loan	16	(2,667)	(2,666)
Net repayment of equipment term loan and equipment line	16	(1,540)	(3,546)
Financing costs on borrowings		(3,557)	(1,249)
Increase in revolving loan facility	16	21,543	30,959
Issuance of unsecured notes	16	60,000	-
Net cash flows provided by financing activities		25,370	75,891
Investing activities			
Business acquisitions	7	(18,224)	(101,685)
Purchase of property, plant and equipment	10	(10,212)	(6,471)
Proceeds from disposition of property, plant and equipment		502	3,537
Bank indebtedness acquired	7	-	(1,306)
Funds received from other investment activities		-	2,022
Net cash flows used in investing activities		(27,934)	(103,903)
Net (decrease) increase in cash and cash equivalents		(6,594)	2,734
Foreign exchange difference		392	532
Cash and cash equivalents - Beginning of year		(3,011)	(6,277)
Cash and cash equivalents - End of year		(9,213)	(3,011)

1. NATURE OF OPERATIONS

CanWel Building Materials Group Ltd. (the “Company”) was incorporated in 2009 under the Business Corporations Act (British Columbia). On May 11, 2010, the Company was continued under the laws of Canada pursuant to section 187 of the Canada Business Corporations Act with its current name. The Company has limited liability, with its shares publicly listed on the Toronto Stock Exchange (“TSX”). The Company’s head office is located at Suite 1100 – 1055 West Georgia Street, Vancouver, BC. The Company’s Canadian operations commenced in 1989.

The Company operates through its wholly owned subsidiaries as a distributor of building materials and home renovation products and as a provider of wood pressure treating services in Canada nationally and regionally in the Western United States and Hawaii. Additionally, the Company has operations in timber ownership and management of private timberlands and Crown forest licenses, full service logging and trucking, and post peeling and pressure treating in British Columbia and Saskatchewan for the North American agricultural market.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements were authorized for issuance on March 5, 2019 by the Board of Directors of the Company.

b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

c) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the following items in the Consolidated Statements of Financial Position:

- (i) Standing timber on privately held forest land is characterized as a biological asset and is measured at fair value less costs to sell;
- (ii) Derivative financial instruments are measured at fair value; and
- (iii) Employee benefit plan assets and liabilities, are recognized as the net of the fair value of the plan assets and the present value of the defined benefit obligations on a plan by plan basis.

d) Principles of consolidation

The consolidated financial statements of the Company include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operational policies of the entity. All intercompany transactions and balances have been eliminated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method, whereby assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business are measured at fair value at the date of acquisition. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the recognition criteria under IFRS 3, *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets which are classified as held-for-sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, and are recognized and measured at fair value, less costs to sell.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the difference is recognized in income immediately as a gain on bargain purchase. Goodwill is subsequently measured at cost less accumulated impairment losses.

Acquisition costs associated with business combination activities are expensed in the period incurred.

b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot rate prevailing at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. Foreign exchange gains and losses that relate to the Company's loans and borrowings are recognized in earnings within finance costs. All other foreign exchange gains and losses relate to product purchases and are accordingly presented within cost of sales.

For each foreign operation, the Company determines the functional currency, and items included in the financial statements of each entity are measured using that functional currency. The Company's foreign operations are in the Western United States and Hawaii, and have the US dollar as the functional currency. The Company uses direct method of consolidation and on disposal of a foreign operation.

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars using the rate of exchange in effect at the reporting date, and their statements of earnings and comprehensive earnings are translated using exchange rates in effect at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in net earnings.

c) Property, plant and equipment

Property, plant and equipment ("PPE") are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	3%
Leasehold improvements	based on lease term
Machinery and equipment	10% to 33%
Automotive equipment	30%
Computer equipment and systems development	20% to 33%

Depreciation begins when an asset is placed in use. Land is not depreciated.

An item of PPE is derecognized upon disposal when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in earnings.

The Company conducts an annual assessment of the residual balances, useful lives, depreciation methods being used for PPE and impairment losses (as applicable), and any changes arising from the assessment are applied by the Company prospectively.

d) Timber

Standing timber on privately held forest land that is managed for timber production is characterized as a biological asset. At each reporting date, the biological asset is valued at its fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in cost of sales for the period. Costs to sell include all costs that would be necessary to sell the assets. The valuation model is performed with reference to independent third party valuers and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumptions, and the resulting net present value of future cash flows for standing timber. Harvested timber is transferred to inventory at its fair value less costs to sell at the date the timber is harvested.

Land under the standing timber is measured at cost and included in property, plant and equipment.

e) Reforestation

The Company has voluntarily opted into the *Private Managed Forest Land Act* (British Columbia) in relation to operations on its private timberlands which requires reforestation to occur within five years of harvest. Accordingly, the Company records a provision for the costs of reforestation in the period in which the timber is harvested. In periods subsequent to the initial measurement, changes in the provision resulting from the passage of time and revisions to management's estimates are recognized in net earnings as they occur. Reforestation provisions are discounted using a risk-adjusted rate that reflects current market assessments of the time value of money and the risks specific to the liability.

f) Leases

Finance leases that transfer substantially all of the risks and benefits of ownership to the Company are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in earnings within finance costs.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense on a straight-line basis over the lease term.

Leasehold inducements arising from rent-free inducements and tenant improvement allowances received from a landlord are being amortized over the term of the lease on a straight-line basis.

g) Intangible assets

All intangible assets acquired by the Company through business acquisitions are recorded at fair value on the date of acquisition. Intangible assets that have indefinite lives are measured at cost less accumulated impairment losses. Intangible assets that have finite useful lives are subsequently measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets comprise of brand recognition and customer relationships, which are amortized on a straight-line basis over 10 years. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

h) Pension and other post-employment benefits

For defined benefit pension plans and other post-retirement benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected health care cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results that are estimated based on assumptions. All past service costs arising from plan amendments are recognized immediately in earnings when the plan amendment occurs or when related restructuring costs are recognized, if earlier.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for asset ceiling impairment or additional liabilities due to onerous minimum funding requirement under International Financial Reporting Interpretations Committee ("IFRIC") 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, International Accounting Standard ("IAS") 19, *The Limit on a Defined Benefit Asset*. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the value of the defined benefit obligation. The remeasurement of fair value of plan assets compared to expected values, together with remeasurements on plan obligations from assumption changes or experience adjustments are recognized immediately in OCI. For funded plans, surpluses are recognized only to the extent that the

surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred.

i) Share-based payments

Certain employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted. The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date and reflects the Company's best estimate, at such time, of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in net earnings as share-based compensation and the corresponding amount is recognized in contributed surplus.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

j) Financing costs

The Company's borrowings are recorded net of financing costs, which are deferred at inception and subsequently amortized over the term of the debt. Interest expense is calculated using the effective interest rate method.

k) Inventories

Inventories are stated at the lower of cost and net realizable value ("NRV"). Cost is determined using the weighted average cost method, net of vendor rebates, and includes materials, freight and, where applicable, treatment and processing costs, chemicals, direct labour and overhead. NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

The cost of logs transferred from standing timber to inventory is its fair value less costs to sell at the date of harvest.

l) Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to inventory and related cost of sales.

m) Performance bonds

Certain subsidiaries of the Company issue bonds to guarantee performance and payment by certain contractors to whom the Company may supply materials. The bonds require cash to be periodically remitted to the Company from project owners or their lenders, upon satisfaction that the bonded contractor has met certain conditions of the related construction contract. The funds are disbursed to the project's contractor subject to the Company's satisfaction as to the progression and completion of the contracted work. Proceeds received by the Company in excess of funds disbursed are recorded in liabilities until such time as the related project is completed.

n) Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in net earnings for the year. Deferred tax relating to items recognized outside of net earnings is recognized in correlation to the underlying transaction, either in OCI or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences from the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

At each reporting period, temporary differences are evaluated. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. The recognized deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Earnings per share

Basic earnings per share are computed by dividing the net earnings for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and restricted equity common shares, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options that are used to purchase common shares at the average market price during the year.

p) Financial instruments*(i) Non-derivative financial instruments*

The Company's non-derivative financial instruments are comprised of trade and other receivables, trade and other payables, performance bonds, dividends payable, senior unsecured notes, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and earn-out commitment.

Financial instruments are initially recognized at fair value plus, for instruments not measured at fair value on an ongoing basis, any directly attributable transaction costs. Subsequent to the initial recognition, financial instruments are measured at fair value or amortized cost.

The Company has classified or designated its financial instruments as follows:

- Trade and other receivables are subsequently measured at amortized cost.
- Trade and other payables, performance bonds, dividends payable, senior unsecured notes, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and equipment line and earn-out commitment are subsequently measured at amortized cost.

(ii) Derivative financial instruments

The Company at times uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign exchange risk through the use of futures contracts and options. These derivative financial instruments are designated as fair value through profit and loss, with changes in fair value being recorded in other income (loss) in net earnings.

q) Fair value measurement

The Company measures derivative financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (i) In the principal market for the asset or liability, or
- (ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

r) Equity

Share capital represents the amount received for shares issued. When shares are issued on a business acquisition, the amount recognized is the fair value at the acquisition date.

Contributed surplus includes the compensation cost relating to the Company's share-based payment transactions. It also includes the difference between the cost of repurchased shares and the average book value.

Dividends on common shares attributable to shareholders are presented in current liabilities when approved prior to the reporting date.

s) Revenue recognition

The Company recognizes revenue from the sale of building products from its network of distribution centers across Canada nationally and regionally in the Western United States and Hawaii, as well as, from the sale of timber products harvested in British Columbia and Saskatchewan as products in the sales category. The Company owns wood treatment and processing facilities that produce specialty products for sale through its distribution network that also generate revenue through the provision of these services to external customers. Provisions of services from the Company's facilities to external customers are presented as services in the sales category.

Revenue from the sale of products and services is recognized, net of discounts and customer rebates, at the point in time the transfer of control of the related products has taken place (based on shipping or delivery terms as specified in the sales contract), and collectability is reasonably assured.

t) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

A provision for an onerous contract is recognized when the economic benefits to be received under the contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating or performing the contract. Before establishing a provision, the Company recognizes any impairment loss that has occurred on the assets dedicated to that contract.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as finance costs.

Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates at that date.

u) Impairment

Financial assets

The Company assesses at each statement of financial position date whether a financial asset is impaired. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in net earnings.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. For financial assets measured at amortized cost, any subsequent reversal of an impairment loss is recognized in net earnings.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in earnings when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. For all other trade receivables, the Company records an allowance using expected credit loss model based on historical bad debts. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Non-financial assets

The carrying amounts of the Company's property, plant and equipment and intangible assets that have a finite life are reviewed at each reporting date to determine whether there is any indication of impairment. Goodwill is reviewed for impairment annually or more frequently if certain impairment indicators arise. The Company's annual impairment testing date for goodwill is December 31.

If any such indication exists or when annual impairment testing for an asset is required, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit (the lowest level of identifiable cash inflows) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset group or cash-generating unit. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net earnings for the year.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

v) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring estimates are goodwill and related impairment testing, valuation of timber, determination of reforestation provision, certain actuarial and economic assumptions used in the determination for the cost and accrued benefit obligations of employee future benefits, inventory valuation and obsolescence, recoverability of trade receivables, deferred tax assets and liabilities valuation, classification of lease agreements and judgments regarding the determination of reportable segments.

a) Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination. Any resulting goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2018 relates to the Company's acquisitions of various businesses. Goodwill is not amortized, but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the value in-use of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the fair value of each cash-generating unit, including a discount rate, a growth rate and revenue projections. When the carrying amount of the cash-generating unit exceeds its value in-use, the value in-use of goodwill related to the cash-generating unit is compared to its carrying value and excess of carrying value is recognized as an impairment loss (Note 13).

b) Timber

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net earnings for the period. Significant judgment is used in determining the fair value with reference to independent third party valuers and recent comparatives of standing timber sales, costs of sustainable forest management, log pricing and harvest volume assumption, the discount rate used, and the resulting net present value of future cash flows for standing timber.

c) Reforestation provision

Management uses judgment in determining the value of the reforestation provision. Due to the general long-term nature of the liability, the most significant areas of uncertainty in estimating the provision are the future costs that will be incurred, the inflation rate, and the risk-adjusted discount rate.

d) Employee future benefits

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future (Note 20).

i. Discount rate

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have maturity profiles that are similar to the underlying cash flows of the defined benefit obligation.

ii. Other assumptions

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates.

e) Inventory valuation

Under IFRS, inventories must be recognized at the lower of cost or their NRV, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize. The measurement of an inventory write-down to NRV is based on the Company's best estimate of the NRV and expected future sale or consumption of inventories. Due to the economic environment and continued volatility in the home-building market, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in the Company's assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence (Note 22).

Inventory includes harvested timber, the cost of which is based on its fair value less costs to sell, and forms a component of the carrying value of log inventory. Harvested timber is subsequently processed into logs and carried at the lower of cost or NRV. Significant judgment is used in determining the fair value of timber with reference to independent third party valuers and recent comparatives of standing timber sales.

f) Allowance for doubtful accounts

It is possible that certain trade receivables may become uncollectible, and as such, an allowance for these doubtful accounts is maintained. The allowance is based on the estimated recovery of trade receivables and incorporates current and expected collection trends. These estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position (Note 8).

g) Income taxes

At each statement of financial position date, a deferred income tax asset may be recognized for all deductible temporary differences, unused tax losses and income tax reductions, to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of the ability to carryback operating losses to offset taxes paid in prior years; the carryforward periods of the losses; and an assessment of the excess of fair value over the tax basis of the Company's

net assets. If based on this review it is not probable such assets will be realized, then no deferred income tax asset is recognized (Note 24).

h) Leases

When assessing the classification of a lease agreement, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, the assessment of the likelihood of exercising options and estimation of the fair value of the lease property (Note 27).

i) Revenue recognition

Areas of significant judgement and estimation related to point in time revenue recognition include the estimation of the expected value of consideration to be received from customers, who may be subsequently impacted by volume discounts, manufacturer rebates and other incentives offered. The Company applies judgement in using weight scale readings and the application of conversion factors to determine the volume of forestry products sold. The Company also applies judgements in identifying performance obligations and determining the costs associated with the acquisition of contracts, which are recognized as they occur, unless the contract has a performance obligation that extends beyond one year.

j) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer.

The Company is managed as two reportable business segments which offer different products, require different production processes, and are based on how financial information is produced internally for the purposes of making operating decisions. The following summary describes the operations of each of the Company's reportable segments:

- a) *Building Materials Distribution* – wholesale distribution of building materials and home renovation products, including value-added services such as lumber pressure treating; and
- b) *Forestry* – timber ownership and management of private timberlands and Crown forest licenses, logging and trucking operations, and value-added services such as post-peeling and post and pole pressure treating operations.

5. CHANGES IN ACCOUNTING STANDARDS

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* ("IFRS 9") and IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15").

a) IFRS 9 – Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 was applied retrospectively and did not have an impact on these audited Annual Consolidated Financial Statements.

b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively and has presented comparatives for the year ended December 31, 2017. The new standard did not result in any change to the timing of revenue recognition for the Company for previously reported periods and did not have a significant impact on the financial results of the Company but did, however, result in more extensive disclosures on the Company's revenue transactions (Note 31).

The Company applied the following practical expedient upon adoption of the new revenue standard: IFRS 15(94) Costs of obtaining a contract. The application of this practical expedient did not have a material impact on the financial results of the Company.

The Company incurs costs related to obtaining of certain contracts that would not have been incurred if the contract had not been obtained. Upon adoption of IFRS 15, the Company has applied the practical expedient in IFRS 15(94) and recognizes these costs as expenses when incurred, as the contract asset that would otherwise be recognized have amortization periods of one year or less.

6. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The following is an overview of accounting changes the Company will be required to adopt in future years.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* ("IAS 17"), and related interpretations. IFRS 16 sets out principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, the lessee and the lessor. IFRS 16 is effective January 1, 2019 and the Company has not early adopted this standard. The Company expects to use the modified retrospective approach which recognizes the cumulative effect of applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

The Company has completed the scoping and review of its outstanding lease agreements and continues to evaluate the impact that this new standard will have, but expects that IFRS 16 will have a material impact on the Company's Consolidated Statement of Financial Position, stemming from the recognition of new right-of-use assets and lease liabilities for leases with lease terms that are greater than twelve months, which are currently accounted for as operating leases.

The Company expects to utilize certain practical expedients available under IFRS 16, including:

- a) recognition exemptions under IFRS 16 (5a) and (5b) for short-term and low-value leases;
- b) an election under IFRS 16 (C11), which allows a Company the choice to not reassess contracts which were previously identified as leases under IAS 17; and
- c) an option under IFRS 16 (B1) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Company estimates that effective January 1, 2019, it will recognize right-of-use assets and corresponding lease liabilities in the range of \$115,000 to \$130,000 in its Consolidated Statement of Financial Position, with no restatement of comparative periods' results. The Company is in the process of finalizing its IFRS 16 transition impact calculations, lease accounting procedures and policies, expecting to be complete during the first quarter of 2019.

Application of the new standard is not anticipated to impact compliance with any of the Company's debt covenants.

7. BUSINESS ACQUISITIONS

2018 Acquisitions

On June 12, 2018, the Company acquired certain assets and the business of Superior Forest Products, Inc. (now doing business as Oregon Cascade Building Materials "OCBM") (the "OCBM Acquisition"). Based in Junction City, Oregon, OCBM will provide lumber pressure treating services for customers predominantly based in Oregon and Washington. The OCBM Acquisition is expected to complement the Company's existing treated lumber and specialty wood products business in the United States. The plant is currently undergoing testing and completion of permitting, and is expected to commence customer shipments in 2019.

On December 3, 2018, the Company acquired certain assets and the business of Western Wood Treating, Inc. (now doing business as Woodland Wood Preservers, Ltd. "Woodland") (the "Woodland Acquisition"). Based in Woodland, California, Woodland specializes in pressure treated wood products. The Woodland Acquisition is expected to expand the Company's presence in the United States treating markets.

The foreign exchange rates used to translate purchase price consideration and fair values of assets acquired were based on the exchange rates published by the Bank of Canada as at the date of the above noted acquisitions (collectively the OCBM and Woodland Acquisitions hereafter, the "2018 Acquisitions").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Details of the allocation of the purchase price to the fair values of the identifiable assets acquired at the date of the 2018 Acquisitions are as follows (in thousands of Canadian dollars):

	Notes	2018 \$
Fair value of purchase consideration		
Cash consideration		18,224
Promissory note	16	4,617
Consideration		22,841
Fair value of assets acquired⁽¹⁾		
Non-cash working capital		386
Property, plant and equipment	10	11,673
Total identifiable net assets at fair value		12,059
Goodwill arising on acquisitions		10,782
Consideration		22,841

1. The purchase price allocation is preliminary and is subject to change up to a period of one year from the acquisition date upon finalization of fair value determinations.

The goodwill recognized is primarily attributed to the expected synergies arising from the acquisitions and the expertise and reputation of the assembled management and workforce. Goodwill is expected to be deductible for income tax purposes.

During the year ended December 31, 2018, directly attributable acquisition costs of \$753 have been expensed and are included in net earnings on the Consolidated Statement of Earnings.

The acquirees' gross revenues and net earnings during the year ended December 31, 2018 were nominal.

2017 Acquisition

On October 2, 2017, the Company completed the acquisition of all issued and outstanding shares of Honsador Acquisition Corp., the parent company of Honsador Building Products group of companies ("Honsador") (the "Honsador Acquisition"), a leading distributor of building products and electrical supplies, and the largest producer of pressure-treated wood in Hawaii. The Honsador Acquisition is expected to expand the Company's presence in the United States building distribution and treating markets, and provide an incumbent position in the State of Hawaii.

Total purchase consideration comprised of US\$81,315, including certain post-closing adjustments. The foreign exchange rate used to translate cash purchase consideration and fair value of assets acquired and liabilities assumed was based on the exchange rate published by the Bank of Canada as at the date of the Honsador Acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Details of allocation of the purchase price to the fair value of the identifiable assets and liabilities acquired at the date of the above noted acquisition were as follows (in thousands of Canadian dollars):

	2017 Provisional ⁽¹⁾	Revision	2017 Revised ⁽¹⁾
	\$	\$	\$
Fair value of purchase consideration			
Cash	101,685	-	101,685
Fair value of assets acquired and liabilities assumed			
Non-cash working capital	47,185	-	47,185
Property, plant and equipment	3,785	-	3,785
Intangible assets (customer lists and brand)	35,014	-	35,014
Other assets	1,544	-	1,544
Bank indebtedness	(1,306)	-	(1,306)
Leasehold inducements	(1,733)	-	(1,733)
Performance bond obligations	(12,409)	-	(12,409)
Finance lease liabilities	(311)	-	(311)
Deferred income tax liabilities	(10,236)	678	(9,558)
Total identifiable net assets at fair value	61,533	678	62,211
Goodwill arising on acquisition	40,152	(678)	39,474
Consideration	101,685	-	101,685

1. The provisional purchase price allocation determined at the Honsador Acquisition date was preliminary and subject to change up to a period of one year from October 2, 2017, upon finalization of fair value determinations, which were finalized during the year ended December 31, 2018.

The fair value of the identifiable assets and liabilities acquired in the Honsador acquisition were revised, with Goodwill and Deferred income tax liabilities, each reduced by \$678, reflecting the deferred income tax impact of an inventory reserve which was not previously recognized. The goodwill recognized was primarily attributed to the expected synergies arising from the Honsador acquisition and the expertise and reputation of the assembled management and workforce. Goodwill is not expected to be deductible for U.S. income tax purposes. The 2017 comparative statement of financial position herein has been revised to reflect the adjustments to the provisional amounts.

From the date of the Honsador acquisition until December 31, 2018, the acquired business contributed \$225,619 of revenue and \$6,554 of net earnings. If the Honsador acquisition had taken place at the beginning of 2017, unaudited consolidated revenue for the year ended December 31, 2017 would have been \$1,276,605 and unaudited net earnings of the Company would have been \$35,700.

8. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables arise primarily from sales of building materials to customers. These are broken down as follows:

	2018	2017
	\$	\$
Trade receivables	92,398	96,553
Allowance for doubtful accounts	(871)	(896)
Net trade receivables	91,527	95,657
Other receivables	10,270	8,848
Total trade and other receivables	101,797	104,505

The aging analysis of trade and other receivables is as follows:

	2018	2017
	\$	\$
Neither past due nor impaired	85,607	89,802
Past due but not impaired:		
Less than 1 month	7,232	8,336
1 to 3 months	6,967	4,171
3 to 6 months	1,991	2,196
Total trade and other receivables	101,797	104,505

Activity in the Company's provision for doubtful accounts was as follows:

	\$
Balance at January 1, 2017	644
Reversals during the year	(55)
Additions arising on acquisition	855
Accounts written off	(539)
Foreign exchange difference	(9)
Balance at December 31, 2017	896
Accruals during the year	61
Accounts written off	(137)
Foreign exchange difference	51
Balance at December 31, 2018	871

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2018.

9. INVENTORIES

	2018 \$	2017 \$
Inventories held for resale	223,109	173,680
Inventories held for processing	61,279	47,815
	284,388	221,495

The expenses related to the sale of inventories are recorded in cost of sales, as described in Note 22.

10. PROPERTY, PLANT AND EQUIPMENT

	Land \$	Buildings, leasehold improvements and roads \$	Machinery, automotive and other equipment \$	Computer equipment and systems development \$	Equipment under finance leases \$	Total \$
Cost						
Cost at						
January 1, 2017	36,758	14,862	67,259	4,592	2,242	125,713
Additions	-	1,776	7,385	174	2,653	11,988
Additions arising on acquisition (Note 7)	-	-	3,424	-	361	3,785
Disposals	(75)	(380)	(6,603)	(74)	(543)	(7,675)
Impairment losses	(1,039)	-	-	-	-	(1,039)
Foreign exchange difference	-	(23)	(306)	(8)	(177)	(514)
Cost at December 31, 2017	35,644	16,235	71,159	4,684	4,536	132,258
Additions	-	2,353	7,348	511	3,544	13,756
Additions arising on acquisitions (Note 7)	-	-	11,673	-	-	11,673
Disposals	-	-	(946)	(5)	(400)	(1,351)
Foreign exchange difference	-	78	1,413	15	378	1,884
Cost at December 31, 2018	35,644	18,666	90,647	5,205	8,058	158,220
Accumulated depreciation						
Accumulated depreciation at						
January 1, 2017	-	2,626	25,282	1,888	581	30,377
Depreciation	-	815	8,619	810	665	10,909
Disposals	-	(187)	(2,109)	(70)	(129)	(2,495)
Foreign exchange difference	-	(2)	(61)	(1)	(55)	(119)
Accumulated depreciation at December 31, 2017	-	3,252	31,731	2,627	1,062	38,672
Depreciation	-	989	9,162	870	688	11,709
Disposals	-	-	(471)	(2)	(257)	(730)
Foreign exchange difference	-	14	211	5	97	327
Accumulated depreciation at December 31, 2018	-	4,255	40,633	3,500	1,590	49,978
Net book value at						
December 31, 2017	35,644	12,983	39,428	2,057	3,474	93,586
Net book value at December 31, 2018	35,644	14,411	50,014	1,705	6,468	108,242

11. TIMBER

	2018 \$	2017 \$
Balance at January 1	64,249	58,905
Reforestation provision on harvested land	868	662
Harvested timber transferred to inventory in the year	(4,851)	(3,243)
Change in fair value resulting from growth and pricing	2,393	7,925
Balance at December 31	62,659	64,249

The Company's private timberlands comprised an area of approximately 53,525 hectares ("ha") of land as at December 31, 2018, with standing timber consisting of mixed-species softwood forests.

During the year ended December 31, 2018, the Company harvested approximately 409,917 cubic metres ("m³") from its private timberlands (2017 - 319,563 m³).

Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values (as defined in Note 29). For the years ended December 31, 2018 and 2017, the fair value measurement for the Company's standing timber, as disclosed above, has been categorized as Level 3 fair value, and was based on the inputs to the valuation technique discussed below.

Valuation Technique	Discounted cash flow analysis: The valuation model considers the present value of the net cash flows expected to be generated by the private timberlands over a period of 20 years. The expected net cash flows are discounted using a risk-adjusted discount rate.
Significant Unobservable Inputs in future periods	<p>Estimated log prices of \$36⁽¹⁾ per m³ (weighted average sawlog and pulpwood prices) plus harvest and delivery charges of \$50⁽¹⁾ (where applicable)</p> <p>Estimated total costs, including harvest, delivery (where applicable) and stewardship cost, of \$53⁽¹⁾ per m³</p> <p>Estimated harvest annual volume of 173,913 - 450,000 m³ (20-year rolling average 256,789 m³ (2017 - 271,732 m³))</p> <p>Risk-adjusted discount rate of 9.50%</p>
Inter-relationship between key unobservable inputs and fair value measurement	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> - the estimated log prices per m³ were higher (lower); - the estimated harvest, delivery and stewardship costs per m³ were lower (higher); - the estimated harvest volumes were higher (lower); and - the risk-adjusted discount rate was lower (higher).

1. In whole dollars, not thousands.

12. INTANGIBLE ASSETS

	Canadian operations \$	US operations \$	Value-added services \$	Total \$
Cost				
Cost at January 1, 2017	10,000	18,406	1,633	30,039
Additions arising on acquisition (Note 7)	-	35,014	-	35,014
Foreign exchange difference	-	(1,001)	-	(1,001)
Cost at December 31, 2017	10,000	52,419	1,633	64,052
Foreign exchange difference	-	4,479	-	4,479
Cost at December 31, 2018	10,000	56,898	1,633	68,531
Accumulated amortization				
Accumulated amortization at January 1, 2017	6,917	2,759	571	10,247
Amortization	1,000	2,686	163	3,849
Foreign exchange difference	-	(239)	-	(239)
Accumulated amortization at December 31, 2017	7,917	5,206	734	13,857
Amortization	1,000	5,549	164	6,713
Foreign exchange difference	-	698	-	698
Accumulated amortization at December 31, 2018	8,917	11,453	898	21,268
Net intangible assets at December 31, 2017	2,083	47,213	899	50,195
Net intangible assets at December 31, 2018	1,083	45,445	735	47,263

Intangible assets at December 31, 2018 relate to Building Materials Distribution business segment, as described in Note 32, and include purchased customer lists and trade names.

13. GOODWILL

	Canadian operations \$	US operations ⁽¹⁾ \$	Value-added services \$	Total \$
Balance at January 1, 2017	62,624	28,246	35,347	126,217
Additions arising on acquisition (Note 7)	-	39,474	-	39,474
Foreign exchange difference	-	(1,562)	-	(1,562)
Balance at December 31, 2017	62,624	66,158	35,347	164,129
Additions arising on acquisition (Note 7)	-	10,782	-	10,782
Foreign exchange difference	-	6,246	-	6,246
Balance at December 31, 2018	62,624	83,186	35,347	181,157

1. US operations Goodwill reflects the revision to the Honsador preliminary purchase price allocation (Note 7).

Goodwill at December 31, 2018 relates to the Company's Building Materials Distribution business segment, as described in Note 32.

The Company performed its annual test for goodwill impairment as at December 31, 2018. The recoverable amount of each of the cash-generating units has been determined using value in-use less costs to sell. To determine the value in-use less costs to sell, the Company utilized five-year cash flow forecasts using the annual budget approved by the Board of Directors as a basis for such forecasts. Cash flow forecasts beyond that of the budget were prepared using a stable growth rate for future periods. These forecasts were based on historical data and future trends expected by the Company. To adjust the forecasts to consider selling costs, management estimated that disposition costs would be 1% of enterprise value.

The Company's valuation model also takes into account working capital and capital investments required to maintain the condition of the assets.

Forecasted cash flows were discounted using after-tax rates of approximately 8% in all cash-generating units for the purpose of the annual impairment test.

Based on the impairment tests, the value in-use of each of the cash-generating units exceeded their carrying amounts. As a result, no provision for impairment of goodwill was provided.

14. CASH AND CASH EQUIVALENTS

	2018 \$	2017 \$
Cash	488	6,744
Cheques issued in excess of cash on hand	(9,701)	(9,755)
	(9,213)	(3,011)

15. PERFORMANCE BOND OBLIGATIONS

The Company assumes performance bond obligations related to certain construction projects. Proceeds temporarily received by the Company in excess of payments with respect to outstanding projects' performance bonds are outlined below.

	2018	2017
	\$	\$
Funds received on bonding obligations ⁽¹⁾	95,488	79,329
Payments made on bonding obligations ⁽¹⁾	(82,385)	(65,637)
Receipts in excess of payments	13,103	13,692
Provision for loss on bonds	404	409
Performance bonding obligations	13,507	14,101

1. Funds received and payments made, from contract commencement to reporting date.

Activity in the Company's performance bond obligations was as follows:

	2018	2017
	\$	\$
Balance at January 1	14,101	-
Additions arising on acquisition (Note 7)	-	12,409
Net (payments) receipts on bonding obligations during the year	(1,698)	1,708
Change in provision for loss on bonds	(40)	(65)
Foreign exchange difference	1,144	49
Balance at December 31	13,507	14,101

Total gross bonding contracts on all outstanding projects at December 31, 2018 were \$149,462 (2017 - \$137,124).

The Company manages risk associated with exposure to loss on these performance bonds through rigorous underwriting practices which include reviewing construction estimates, evaluating contractors' experience and financial condition, managing bond proceeds assigned to the Company, and obtaining security or personal guarantees from contracted parties for certain performance bonds.

16. LOANS AND BORROWINGS

	2018 \$	2017 \$
Non-current portion of loans and borrowings⁽¹⁾		
Unsecured notes	56,756	-
Revolving loan facility	184,102	159,468
Non-revolving term loan	30,913	33,554
Promissory notes	3,184	802
Equipment term loan, equipment line and other loans	8,516	11,099
Total non-current portion of loans and borrowings	283,471	204,923
Current portion of loans and borrowings		
Non-revolving term loan	2,667	2,667
Promissory notes	2,400	3,680
Equipment term loan, equipment line and other loans	3,639	3,432
Total current portion of loans and borrowings	8,706	9,779
Total loans and borrowings	292,177	214,702

1. Net of unamortized financing costs

On October 9, 2018, the Company completed an offering of senior unsecured notes (the "Unsecured Notes") denominated in principal amounts of one thousand dollars, resulting in gross proceeds of \$60,000. The offering was underwritten by a syndicate of underwriters led by National Bank Financial Inc., and including GMP Securities L.P., Canaccord Genuity Corp., CIBC World Markets Inc., Raymond James Ltd., RBC Dominion Securities Inc., and Haywood Securities Inc. The Unsecured Notes trade on the Toronto Stock Exchange under the symbol CWX.NT.A. The net proceeds of the Unsecured Notes were used for repayment of bank debt and for general corporate purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Terms and repayment schedule

The terms and conditions of the outstanding loans and borrowings are as follows:

	Currency	Nominal interest rate %	Maturity	December 31, 2018		December 31, 2017	
				Face value \$	Carrying amount \$	Face value \$	Carrying amount \$
Unsecured notes ⁽¹⁾	CDN	6.375	October 9, 2023	60,000	56,756	-	-
Revolving loan facility ⁽²⁾	CDN	Based on Canadian prime rate or Canadian Offered Rate	July 10, 2021	150,213	148,376	153,561	151,093
Revolving loan facility ⁽²⁾	USD	Based on US prime rate or London Interbank Offered Rate	July 10, 2021	35,937	35,726	8,607	8,375
Non-revolving term loan ⁽³⁾	CDN	Based on Canadian prime rate or Canadian Banker's Acceptance Rate	July 10, 2021	34,000	33,580	36,667	36,221
Promissory note ⁽⁴⁾	USD	Based on US Prime Rate	December 3, 2021	4,775	4,775	-	-
Promissory notes ⁽⁵⁾	CDN	2.100-3.000	July 2, 2018 - August 31, 2019	809	809	4,482	4,482
Equipment term loan ⁽⁶⁾	CDN	Based on Business Development Bank of Canada Floating Base Rate	July 1, 2021	8,128	8,007	12,117	11,950
Equipment line ⁽⁶⁾	CDN	Based on Business Development Bank of Canada Floating Base Rate	July 1, 2025	4,063	4,063	2,461	2,461
Other	CDN	5.000	December 2020	85	85	120	120
Total loans and borrowings				298,010	292,177	218,015	214,702

1. Includes a non-call protection of three years with a declining call schedule thereafter; interest is payable semi-annually.
2. Maximum credit available is \$300,000, with an additional \$25,000 accordion facility. Amount advanced under the facility at any time is limited to a defined percentage of inventories and trade receivables, less certain reserves. The facility is secured by a first charge over the Company's assets and an assignment of trade receivables, and requires that certain covenants be met by the Company.
3. Principal is amortized over 15 years and is payable in quarterly instalments. The loan is secured by a first charge against the Company's timberlands and certain other assets, and a subordinated charge over the Company's remaining assets, and requires that certain covenants be met by the Company.
4. An unsecured note was issued as partial consideration for an acquisition (Note 7). Principal is payable in three equal annual instalments, plus annual interest, starting December 3, 2019.
5. Various promissory notes in connection with prior business acquisitions.
6. The loans are secured by a first charge against the specific equipment being financed under this arrangement, and a subordinated charge over the Company's other assets.

The Company was not in breach of any of its covenants during the years ended December 31, 2018 and 2017.

17. FINANCE LEASE LIABILITIES

	2018	2017
	\$	\$
Finance lease liabilities	5,760	3,559
Less: current portion	(1,620)	(1,035)
	4,140	2,524

The Company leases certain transportation equipment, which has been classified as finance leases. Future minimum lease payments with respect to these leases are disclosed in Note 27.

18. REFORESTATION AND ENVIRONMENTAL

	2018	2017 ⁽¹⁾
	\$	\$
Balance at January 1	3,159	3,623
Paid during the year	(1,421)	(1,247)
Reforestation provision on harvested land	963	662
Changes in fair value	(240)	121
Balance at December 31	2,461	3,159
Less: current portion	(737)	(624)
	1,724	2,535

1. At December 31, 2017, \$1,478 is included in trade and other payables.

19. OTHER LIABILITIES

Earn-out commitment

Subject to certain minimum obligations, the Company has a liability to pay additional amounts ("Earn-out") from proceeds of sale of certain lands to third parties for a period of seven years beginning September 15, 2014. The total net remaining undiscounted minimum amount payable with respect to the Earn-out is \$2,065 (December 31, 2017 - \$2,065), with an additional 25% of the gross proceeds on any amounts above a certain price per hectare sold. The total discounted amount payable with respect to the Earn-out is \$1,691 (December 31, 2017 - \$1,448), and is included in other liabilities.

20. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Defined benefit pension plans

The Company sponsors two non-contributory defined benefit pension plans: one a registered pension plan for salaried employees and the other a non-registered historical pension plan for certain retired executives. Both plans provide benefits based on years of service and historical highest average salary. The plans were closed to new participants effective August 1, 2000. The Company amended the registered defined benefit pension plan effective January 1, 2005 to reduce the benefit formula for future years of service and to allow members of the defined benefit pension plan to participate in the defined contribution plan. In respect of the non-registered historical executive pension plan, the Company has issued letters of credit amounting to \$1,405 (2017 - \$1,485) based on annual actuarial estimates.

The most recent actuarial valuation of the registered pension plan for funding purposes was as of December 31, 2016. The next actuarial valuation for the registered pension plan is required to be performed as at December 31, 2019.

Annuity contract

During the comparative year ended December 31, 2017, the Company purchased an annuity buy-in for plan retirees for \$36,009 through its defined benefit pension plan, representing total annuities purchased to date. Future cash flows from the annuity will match the amount and timing of benefits payable under the plan, substantially mitigating the exposure to future volatility in the related pension obligation. Actuarial based transaction costs of \$4,380 relating to the purchase were recognized in other comprehensive income (loss), reflecting the difference between the annuity buy-in rate (which is comparable to solvency rates) compared to the discount rate used to value the obligations on a going concern basis.

At December 31, 2018, reflecting the buy-in annuity, 64% (2017 - 66%) of the defined benefit pension plan obligation was fully hedged against changes in future discount rates and longevity risk (potential increases in life expectancy of plan members).

Defined contribution plans

The Company sponsors defined contribution plans for eligible employees. Pension expense for the defined contribution plans for the year ended December 31, 2018 amounted to \$1,050 (2017 - \$1,029) and is included in distribution, selling and administration expenses.

Post-retirement benefits other than pensions

The Company provides extended health care benefits and pays provincial medical plan premiums on behalf of qualifying employees. The Company also pays for the dental benefits of certain retirees who had been employed at a predecessor company.

Total cash payments

Total cash payments for employee future benefits for 2018, consisting of cash contributed by the Company to defined benefit plans, defined contribution plans, and other post-retirement benefits, were \$1,794 (2017 - \$1,788), with no solvency deficiency contributions.

Included in total cash payments, based on 2018 experience, the Company expects the 2019 contributions for its defined benefit plans to be approximately \$350, including solvency deficiency contributions of \$49.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The status of the defined benefit pension and post-retirement benefit plans is as follows:

	Pension benefit plan		Other benefit plans	
	2018 \$	2017 \$	2018 \$	2017 \$
Net benefit expense				
Current service cost	368	502	-	-
Non-investment expenses	80	126	-	-
Interest cost on benefit obligation	1,584	1,728	79	177
Interest on effect of asset ceiling impairment at beginning of year	1	103	-	-
Expected return on plan assets	(1,540)	(1,792)	-	-
Net benefit expense	493	667	79	177
Defined benefit obligation				
Defined benefit obligation at January 1	49,023	48,856	2,508	5,071
Current service cost	368	502	-	-
Interest cost on benefit obligation	1,584	1,728	79	177
Benefits paid	(2,838)	(2,805)	(222)	(240)
Actuarial (gains) losses on obligation	(2,476)	742	(167)	(2,500)
Defined benefit obligation at December 31	45,661	49,023	2,198	2,508
Plan assets				
Fair value of plan assets at January 1	47,846	50,545	-	-
Expected return on plan assets	1,540	1,792	-	-
Employer contributions	522	519	222	240
Non-investment expenses	(80)	(126)	-	-
Benefits paid	(2,838)	(2,805)	(222)	(240)
Actuarial losses on plan assets	(1,529)	(2,079)	-	-
Fair value of plan assets at December 31	45,461	47,846	-	-
Net benefit liability				
Fair value of plan assets at December 31	45,461	47,846	-	-
Accrued benefit obligation at December 31	(45,661)	(49,023)	(2,198)	(2,508)
	(200)	(1,177)	(2,198)	(2,508)
Asset ceiling impairment	(892)	(23)	-	-
Net benefit liability	(1,092)	(1,200)	(2,198)	(2,508)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The Company has recorded net benefit expense and actuarial gains (losses) as follows:

	Pension benefit plan		Other benefit plans	
	2018 \$	2017 \$	2018 \$	2017 \$
Distribution, selling and administration				
Current service cost	368	502	-	-
Non-investment expenses	80	126	-	-
	448	628	-	-
Finance costs				
Interest cost on benefit obligation	1,584	1,728	79	177
Interest on effect of asset ceiling impairment at beginning of year	1	103	-	-
Expected return on plan assets	(1,540)	(1,792)	-	-
	45	39	79	177
Other comprehensive income (loss)				
Actuarial gains (losses) on obligation due to changes in financial assumptions	2,496	(1,494)	172	14
Actuarial (losses) gains on obligation due to changes in experience	(20)	752	(5)	131
Actuarial gains on obligation due to changes in demographic assumptions	-	-	-	2,355
Actuarial losses on plan assets	(1,529)	(2,079)	-	-
Net change in effect of asset ceiling	(868)	2,954	-	-
	79	133	167	2,500

Assets

The weighted average asset allocation of the defined benefit plan consists of:

	2018 %	2017 %
Equity securities	1	2
Debt securities	31	28
Annuity	64	67
Short-term securities	4	3
	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The major categories of plan assets of the fair value of the total plan assets are as follows:

	2018 %	2017 %
Investments quoted in active markets	1	2
Unquoted investments (pooled funds)	35	31
Annuity	64	67
	100	100

Significant assumptions

The significant weighted average assumptions used are as follows:

	Pension benefit plan		Other benefit plans	
	2018 %	2017 %	2018 %	2017 %
Accrued benefit obligation as of December 31				
Discount rate	3.80	3.30	3.80	3.30
Rate of compensation increase	3.25	3.25		
Benefit costs for year ended December 31				
Discount rate	3.30	3.60	3.30	3.60
Rate of compensation increase	3.25	3.25		

Assumed health care cost trend rates at December 31 are as follows:

	2018 %	2017 %
Health care initial cost trend rate	8.0	8.0
Health care ultimate cost trend rate	3.5	3.5
Year that the rate reaches the ultimate trend rate	2027	2027

The mortality assumptions are based on the 2014 Canadian Pensioners Mortality Private table with generational projection using mortality improvement scale CPM-B and adjusted for size of pensions.

Sensitivity analysis

A one-percentage point change in the assumed rate of increase in health care costs would have the following effects:

	Other benefit plans			
	2018		2017	
	Increase \$	Decrease \$	Increase \$	Decrease \$
Effect on the defined benefit obligation	207	(184)	213	(188)
Effect on the aggregate current service cost and interest cost	8	(7)	7	(7)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

A one-percentage point change in the assumed discount rate would have the following effects:

	Pension benefit plan		Other benefit plans	
	Increase \$	Decrease \$	Increase \$	Decrease \$
2018				
Effect on the defined benefit obligation	(4,314)	5,213	(145)	166
Effect on the aggregate current service cost and interest cost for the next year	184	(228)	14	(16)
2017				
Effect on the defined benefit obligation	(4,911)	6,037	(179)	206
Effect on the aggregate current service cost and interest cost for the next year	234	(228)	16	(20)

The average duration of the defined benefit plan obligation at December 31, 2018 is 10.1 years.

21. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common and preferred shares with no par value.

Normal Course Issuer Bid

On November 22, 2018 the Company commenced a Normal Course Issuer Bid (“NCIB”) with respect to its common shares. Under the terms of the NCIB, the Company may purchase for cancellation up to 6,085,605 of its common shares at market prices. At December 31, 2018 the Company had not repurchased and cancelled any of its common shares.

2017 Private Placement

On October 2, 2017, and concurrent with the Honsador Acquisition (Note 4), the Company completed a private placement of 9,832,500 subscription receipts at a price of \$5.85 each, resulting in gross proceeds of \$57,520 (the “2017 Private Placement”), including subscription receipts to certain insiders for proceeds of \$5,618. The 2017 Private Placement is pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Raymond James Ltd., Cormark Securities Inc. and Haywood Securities Inc.

Cash proceeds raised from the 2017 Private Placement, net of issuance costs, were used to partially finance the Honsador Acquisition. Upon the closing of the Honsador Acquisition, the subscription receipts issued were converted into a total of 9,832,500 common shares.

2017 Public Offering

On April 18, 2017, the Company completed a public offering of 6,598,470 common shares, by way of prospectus, at a price of \$6.10 each, resulting in gross proceeds of \$40,251 (the "2017 Public Offering"). The 2017 Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by GMP Securities L.P., and included National Bank Financial Inc., Canaccord Genuity Corp., Haywood Securities Inc., Raymond James Ltd., and Cormark Securities Inc.

Cash proceeds raised from the 2017 Public Offering, net of issuance costs, were used for reducing the Company's existing revolving loan facility, which was re-drawn during the fourth quarter of 2017 to partially fund the Honsador Acquisition, and for general corporate purposes.

Restricted Equity Common Share Plan ("RECSP")

The Company's Restricted Equity Common Share Plan provides for an allotment of Restricted Equity Common Shares ("RSUs") to designated directors, officers and employees of the Company (each a "Member") at the discretion of the compensation committee.

RSUs generally vest one-third on the date of grant and one-third on each of the first and second anniversary of the date of the grant. However, vesting may be accelerated, or different vesting schedules may be implemented, at the discretion of the compensation committee. RSUs shall, within 30 days of vesting and, in any event, by no later than December 31 following the vesting date, be satisfied by the Company issuing to the holder that number of shares equal to the number of vested RSUs then credited to the holder. The RSUs earn additional RSUs for the dividends that would otherwise have been paid on the RSUs as if they had been issued as of the date of the grant. The number of additional RSUs is calculated using the average market price of the Company's shares in the five days immediately preceding each distribution.

RSUs granted are considered to be in respect of future services and are recognized in share-based compensation costs over the vesting period. Compensation cost is measured based on the market price of the Company's shares on the date of granting of the RSUs.

The Company's obligation to issue shares on the vesting of RSUs is an unfunded and unsecured obligation of the Company.

The plan authorizes a maximum of 1,500,000 of the Company's issued and outstanding common shares to be reserved for issuance.

Outstanding Restricted Stock Units ("RSUs") pursuant to the RECSP are as follows:

	2018	2017
	#	#
Balance at January 1	-	-
Granted	3,726	4,832
Vested and converted to common shares during the year	(3,726)	(4,832)
Balance at December 31	-	-

Compensation expense in respect of RSUs for the year ended December 31, 2018 was \$25 (2017 - \$29).

Employee Common Share Purchase Plan (“ECSPP”)

For the year ended December 31, 2018, the Company has issued 81,217 (2017 - 70,955) common shares from treasury for gross proceeds of \$490 (2017 - \$384) from employees, pursuant to this plan.

The plan authorizes a maximum of 1,000,000 of the Company’s issued and outstanding common shares to be reserved for issuance.

Dividends

The following dividends were declared and paid by the Company:

	2018				2017			
	Declared			Paid	Declared			Paid
	Record date	Per share	Amount		Record date	Per share	Amount	
Quarter 1 dividend	March 29, 2018	0.14	10,877	April 13, 2018	March 31, 2017	0.14	8,566	April 14, 2017
Quarter 2 dividend	June 29, 2018	0.14	10,878	July 13, 2018	June 30, 2017	0.14	9,490	July 14, 2017
Quarter 3 dividend	September 28, 2018	0.14	10,884	October 15, 2018	September 29, 2017	0.14	9,496	October 13, 2017
Quarter 4 dividend	December 31, 2018	0.14	10,884	January 15, 2019	December 29, 2017	0.14	10,872	January 15, 2018
		0.56	43,523			0.56	38,424	

22. COST OF SALES

Cost of sales includes the following costs:

	2018	2017
	\$	\$
Purchased and treated building materials	1,041,615	925,972
Salaries and benefits	29,190	29,092
Logging, harvesting and hauling	17,064	23,911
Peeled and treated posts	5,146	7,170
Timber harvested and sold	4,679	3,504
Fair value adjustments	(2,393)	(7,925)
Inventory provisions	1,776	1,155
Other	1,288	898
	1,098,365	983,777

23. DISTRIBUTION, SELLING AND ADMINISTRATION COSTS

Distribution, selling and administration costs include the following:

	2018	2017
	\$	\$
Salaries and benefits	66,729	51,782
Building rent and occupancy costs	31,954	23,043
Office and miscellaneous	9,400	7,216
Travel, promotion and entertainment	8,334	5,636
Professional and management fees	4,520	2,521
	120,937	90,198

24. INCOME TAXES

Income tax for the Company consists of the following:

Consolidated Statements of Earnings

	2018	2017
	\$	\$
Current income tax expense	8,632	8,172
Deferred income tax expense (recovery)	2,499	(1,195)
	11,131	6,977

Consolidated Statements of Comprehensive Earnings

	2018	2017
	\$	\$
Deferred tax related to items recorded in OCI during the year		
Actuarial gains	64	707

The Company's effective income tax rate differs from the statutory income tax rate. The difference arises from the following items:

	2018	2017
	\$	\$
Earnings before income taxes	41,146	35,782
Income tax at statutory rates	11,667	10,986
Adjustment to deferred tax assets related to changes in tax rates	2	(3,325)
Amounts not deductible for tax and other	(538)	(684)
Income tax expense	11,131	6,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Temporary differences that give rise to deferred income tax assets and liabilities are as follows:

	2018	2017
	\$	\$
Deferred income tax (liabilities) assets:		
Property, plant and equipment	(10,701)	(8,312)
Timber	(12,349)	(12,283)
Pensions and other post-retirement benefits	892	960
Non-capital losses	9,089	9,483
Non-deductible reserves	4,108	3,258
Intangible assets and goodwill	(7,705)	(6,614)
	(16,666)	(13,508)

At December 31, 2018, the Company has approximately \$49,127 of Canadian non-capital losses that may be available for deduction against taxable income in future years. These losses expire as follows:

	\$
2026	698
2027	1,111
2028	1,090
2029	3,590
2030	4,403
Thereafter	38,235
	49,127

At December 31, 2018, approximately \$15,000 of these non-capital losses have not been recognized as deferred income tax assets.

25. FINANCE COSTS

Finance costs for the Company are broken down as follows:

	2018	2017
	\$	\$
Loans and borrowings	9,898	6,555
Finance lease liabilities	193	81
Other	158	463
Net cash interest	10,249	7,099
Amortization of financing costs	1,056	835
Accretion of earn-out commitment	243	120
Interest expense on net defined benefit liability	124	216
	11,672	8,270

26. RELATED PARTY TRANSACTIONS

Transactions

The Company has transactions with related parties in the normal course of operations at amounts as agreed between the related parties as follows:

	2018	2017
	\$	\$
Leased facilities: distribution ⁽¹⁾ and treatment plants ⁽²⁾	3,317	3,223
Purchase of product ⁽³⁾⁽⁴⁾	4,664	2,620
Management fees and other ⁽⁵⁾	1,098	1,208
Professional fees and other ⁽⁶⁾	645	559

1. Paid to a company in which a member of key management personnel who is a director and officer of the Company has an interest.
2. Paid to a company solely controlled by a director and officer of the Company.
3. Paid to a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in: \$3,627 (2017 - \$2,620).
4. Paid to a company owned by a director of the Company: \$1,037 (2017 - \$nil).
5. Paid to a company controlled by a member of key management personnel who is also a director and officer of the Company.
6. Paid to a company controlled by an officer of the Company.

Commitments with related parties

The minimum payments under the terms of the leases with companies, in which a member of key management personnel who is also a director and officer of the Company has an interest in, are as follows:

Year ending December 31	\$
2019	3,352
2020	2,307
2021	1,944
2022	1,557
2023	1,589
Thereafter	14,072
	24,821

Payable to related parties

As at December 31, 2018, trade and other payables include amounts due to related parties as follows:

	2018	2017
	\$	\$
Purchase of product ⁽¹⁾	38	99
Management fees and other ⁽²⁾	59	55
Professional fees and other ⁽³⁾	282	133

1. Owing to a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in.
2. Owing to a company controlled by a member of key management personnel who is also a director and officer of the Company.
3. Owing to a company controlled by an officer of the Company.

Compensation of key management personnel

Compensation of key management is reported on the accrual basis of accounting consistent with the amounts recognized on the Consolidated Statement of Earnings. Key management includes the Company's Board of Directors, the Chief Executive Officer, the President, and the Chief Financial Officer. Compensation awarded to key management is summarized as follows:

	2018	2017
	\$	\$
Salaries and other benefits	3,397	3,369
Share-based compensation	25	29
	3,422	3,398

27. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company has lease commitments as follows:

- a. real estate operating leases with third parties and related parties covering the head office, as well as many of the distribution centre properties and treatment plant properties;
- b. operating leases covering certain vehicles, computer equipment and warehouse equipment; and
- c. finance leases covering certain transportation equipment.

Future minimum payments due under the terms of these leases, including those amounts disclosed in Note 26, are as follows:

Years ending December 31	\$
2019	23,968
2020	19,778
2021	15,787
2022	13,518
2023	12,064
Thereafter	63,187
	148,302

As at December 31, 2018 present value of minimum lease payments relating to the finance leases was \$5,242 (2017 - \$3,140).

Claims

During the normal course of business, certain product liability and other claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims, where applicable, and, based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, in consideration of insurance coverage maintained, or the nature of the claims, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or future earnings of the Company.

28. FINANCIAL INSTRUMENTS

Non-derivative financial instruments

The carrying amounts and fair values of non-derivative financial instruments were as follows:

	2018		2017	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	488	488	6,744	6,744
Trade and other receivables	101,797	101,797	104,505	104,505
Cheques issued in excess of cash on deposit	9,701	9,701	9,755	9,755
Trade and other payables	80,808	80,808	83,620	83,620
Performance bonds	13,507	13,507	14,101	14,101
Dividends payable	10,884	10,884	10,872	10,872
Unsecured notes	56,756	57,594	-	-
Revolving loan facility	184,102	186,150	159,468	162,168
Non-revolving term loan	33,580	34,000	36,221	36,667
Promissory notes	5,584	5,584	4,482	4,482
Finance lease liabilities	5,760	5,760	3,559	3,559
Equipment term loan, equipment line and other	12,155	12,276	14,531	14,698
Earn-out commitment	1,691	1,691	1,448	1,448

The following methods and assumptions were used to determine the estimated fair value of each class of financial instrument:

- The fair values of cash, trade and other receivables, cheques issued in excess of cash on deposit, trade and other payables, performance bonds and dividends payable is comparable to their carrying amount, given the short maturity periods.
- The fair value of the Company's unsecured notes was based on the quoted active market price at December 31, 2018.
- The fair values of the Company's revolving loan facility, non-revolving term loan, and equipment term loan, equipment line and other approximate their carrying values as they bear interest at variable rates based on current market rates. The fair values have been estimated as the carrying values excluding unamortized financing costs.

- The fair values of the Company's promissory notes and finance lease liabilities approximate their carrying values as they bear interest that approximates current market rates.
- The fair value of the earn-out commitment is equal to the discounted amount of the Earn-out Payment.

The expenses resulting from financial assets and liabilities recorded in net earnings were as disclosed in Note 25.

Derivative financial instruments

The Company uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign exchange risk through the use of futures contracts and options. Derivative instruments were designated as fair value through profit and loss, with changes in fair value recorded in other income (loss).

At December 31, 2018, the Company held various outstanding foreign exchange contracts to purchase an aggregate of US\$9,020 at exchange rates ranging between 1.3175 and 1.3225 (2017 - \$1,891) for economic hedging purposes, and unrealized gains totaling \$400 (2017 - \$27) were recorded in Other income.

When held by the Company, these derivative financial instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored and restricted by senior management, including limits for a maximum number of outstanding contracts at any point in time, the risk of credit loss on these financial instruments is considered low.

Financial risk management

The Company's activities result in exposure to a variety of financial risks from its financial assets and financial liabilities, including risks related to credit, interest rates, currency, liquidity and wood product prices.

Financial assets include trade and other receivables, which are measured at amortized cost. Financial liabilities include cheques issues in excess of cash on deposit, trade and other payables, performance bond obligations, dividends payable, unsecured notes, revolving loan facility, non-revolving term loan, promissory notes, finance lease liabilities, equipment term loan and equipment line, and earn-out commitment. All financial liabilities are measured at amortized cost.

The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management, which seeks to minimize any potential adverse effects on the Company's financial performance.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises primarily from the Company's trade and other receivables. The Company grants credit to its customers in the normal course of operations. To limit its exposure to credit risk, the Company performs ongoing evaluations of the credit quality of its customers and follows diligent credit granting and collection procedures. Purchase limits are established for each customer and are reviewed regularly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The Company regularly reviews the collectability of its trade accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts.

As at December 31, 2018, trade accounts receivable, excluding other receivables, were as follows:

	\$
Current	89,206
Past due over 60 days	3,192
Trade receivables	92,398
Less: Allowance for doubtful accounts	(871)
	91,527

As at December 31, 2018, the maximum exposure to credit risk is \$101,797 (2017 - \$104,505), which represents the carrying value amount of financial instruments classified as trade and other receivables.

Interest rate risk

The Company is exposed to interest rate risk through its variable rate revolving loan facility, non-revolving term loan, and equipment term loan and equipment line (Note 16). Based on the Company's average revolving loan facility, non-revolving term loan and equipment term loan balance during 2018, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of \$2,051 in net annual earnings.

Currency risk

Currency risk is the risk that changes in market prices of foreign exchange rates will affect the Company's earnings or the value of its holdings of financial instruments. The Company is exposed to currency risk on the United States dollar components of its revolving loan facility, as well as sales and purchase transactions that are denominated in United States dollars.

As at December 31, 2018, a \$0.05 increase in the United States dollar versus the Canadian dollar would have an insignificant impact on net earnings, and an increase in other comprehensive earnings of approximately \$9,700.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at a reasonable cost. The Company manages liquidity risk by having appropriate credit facilities available at all times. In addition, the Company continuously monitors and reviews both actual and forecasted cash flows. The Company is exposed to refinancing risks as there can be no assurance that the Company will be able to secure credit on the same terms or amount when the facility expires.

Other price risk

Other price risk is defined as the potential adverse impact on earnings and economic value due to price movement and volatilities. The Company is exposed to other price risk with respect to certain wood products. The Company closely monitors wood product prices.

29. FAIR VALUE MEASUREMENT

IFRS 13, *Fair Value Measurement* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset and liability, either directly or indirectly;
- Level 3 – Inputs that are not based on observable market data.

The following table summarizes the fair value measurement hierarchy of the Company's assets and liabilities at December 31, 2018.

	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Non-financial assets measured at fair value				
Timber	62,659	-	-	62,659
Financial assets measured at fair value				
Derivative financial instruments	400	-	400	-
Financial assets for which fair values are disclosed				
Trade and other receivables	101,797	-	-	101,797
Financial liabilities for which fair values are disclosed				
Trade and other payables	80,808	-	-	80,808
Performance bonds	13,507	-	-	13,507
Dividends payable	10,884	-	10,884	-
Unsecured notes	57,594	57,594	-	-
Revolving loan facility	186,150	-	-	186,150
Non-revolving term loan	34,000	-	-	34,000
Promissory notes	5,584	-	-	5,584
Finance lease liabilities	5,760	-	-	5,760
Equipment term loan and equipment line	12,276	-	-	12,276
Earn-out commitment	1,691	-	-	1,691

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

30. CHANGES IN NON-CASH WORKING CAPITAL

	2018	2017
	\$	\$
Trade and other receivables	5,314	(3,505)
Inventories	(54,945)	(9,322)
Prepaid expenses and deposits	1,791	(186)
Trade and other payables	(5,892)	7,589
Performance bond obligations	(1,735)	1,708
	(55,467)	(3,716)

31. REVENUE

The following table presents disaggregated revenues from contracts for the Company in categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2018			2017		
	Distribution \$	Forestry \$	Total \$	Distribution \$	Forestry \$	Total \$
Primary geographic markets						
Canada	903,895	42,338	946,233	893,765	42,333	936,098
United States	336,870	8,192	345,062	186,524	13,328	199,852
	1,240,765	50,530	1,291,295	1,080,289	55,661	1,135,950
Sales categories						
Products	1,236,428	50,530	1,286,958	1,075,871	53,662	1,129,533
Services	4,337	-	4,337	4,418	1,999	6,417
	1,240,765	50,530	1,291,295	1,080,289	55,661	1,135,950

Certain customers elect to prepay for goods and services, for which the Company has recorded a contract liability of \$2,924 as at December 31, 2018 (December 31, 2017 - \$3,184), related to these unsatisfied performance obligations (unearned revenues). These amounts are included in Trade and other payables in the Consolidated Statement of Financial Position.

The Company has sold products to certain customers who comprise greater than 10% of its sales. During the year ended December 31, 2018, two customers individually accounted for sales in excess of 10%, purchasing an aggregate of \$383,821 (2017 - \$357,446, representing two customers).

32. SEGMENTED INFORMATION

The Company operates in two reportable business segments and two geographic areas.

The two reportable business segments offer different products, require different production processes, and are based on how financial information is produced internally for the purposes of making operating decisions. The following summary describes the operations of each of the Company's reportable business segments:

- *Distribution* – wholesale distribution of building materials and home renovation products, including value-added services such as lumber pressure treating; and
- *Forestry* – timber ownership and management of private timberlands and Crown forest licenses, logging and trucking operations, and value-added services such as post-peeling and post and pole pressure treating operations.

Sales between segments are accounted for at prices that approximate fair value. No business segments have been aggregated to form the above reportable business segments.

	2018				2017			
	Distribution \$	Forestry \$	Adjustments and eliminations ⁽¹⁾ \$	Consolidated \$	Distribution \$	Forestry \$	Adjustments and eliminations ⁽¹⁾ \$	Consolidated \$
Revenue								
External customers	1,240,765	50,530	-	1,291,295	1,080,289	55,661	-	1,135,950
Inter-segment	-	1,594	(1,594)	-	-	882	(882)	-
	1,240,765	52,124	(1,594)	1,291,295	1,080,289	56,543	(882)	1,135,950
Specified income (expenses)								
Depreciation and amortization	(13,411)	(5,011)	-	(18,422)	(9,039)	(5,719)	-	(14,758)
Restructuring costs	-	-	-	-	-	(834)	-	(834)
Finance costs	(9,160)	(2,512)	-	(11,672)	(5,876)	(2,394)	-	(8,270)
Fair value adjustments	-	2,393	-	2,393	-	7,925	-	7,925
Net earnings	26,289	3,726	-	30,015	28,133	672	-	28,805
Purchase of property, plant and equipment	8,048	5,708	-	13,756	4,335	7,653	-	11,988

1. Includes inter-segment eliminations and income and expenses that are not allocated to reportable business segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	December 31, 2018				December 31, 2017			
	Distribution \$	Forestry \$	Percent %	Consolidated \$	Distribution \$	Forestry \$	Percent %	Consolidated \$
Canada	118,774	131,679	62	250,453	123,173	132,041	67	255,214
United States	156,073	-	38	156,073	124,870	-	33	124,870
Long-term assets	274,847	131,679	100	406,526	248,043	132,041	100	380,084

The percentage of total revenue from external customers from product groups is as follows:

	2018 %	2017 %
Construction materials	58	61
Specialty and allied	34	33
Forestry and other	8	6
	100	100

33. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide dividends to shareholders and benefits for other stakeholders. The Company includes debt and equity, comprising shareholders' capital, contributed surplus, deficit and cumulative dividends on shares, in the definition of capital.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital structure. It does this by maintaining appropriate debt levels in relation to its working capital and other assets in order to provide the maximum dividends to shareholders commensurate with the level of risk. Also, the Company utilizes its debt capabilities to buy back shares, where appropriate, in order to maximize cash distribution rates for remaining shareholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares in the market, issue new shares, or sell assets to reduce debt.

The Company's policy is to dividend all available cash from operations to shareholders after provision for cash required for maintenance of capital expenditures and other reserves considered advisable by the Company's directors. The Company has eliminated the impact of seasonal fluctuations by equalizing quarterly dividends.

There are no externally imposed capital requirements and the Company's loan agreements do not contain any capital maintenance covenants.

There were no changes to the Company's approach to capital management during the current year.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.



CORPORATE INFORMATION

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James Code
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Trading Symbols:

CWX, CWX.NT.A

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